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SUCCESSFUL COOPERATIVE COTTON GIN ASSOCIATIONS IN TEXAS

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The cooperative cotton gin associations gin from 20 to 25 per cent of the Texas cotton crop. Ten years ago Texas had 75 cooperative gins; today the number is 375, a five-fold increase in a decade.

Less than 20 per cent of the cooperative gin associations are outstandingly successful. A large percentage of the associations have not attained a satisfactory level of efficiency.

A historical sketch of the cooperative gin movement in Texas is included in this Bulletin as the means of emphasizing the difficulties and problems which had to be mastered before strong and sound cooperative gin associations could be perfected.

A detailed analysis is given of four successful cooperative gin associations. The purposes of this analysis in the main are:

1. To disclose to the members of the four associations the more pertinent factors underlying the success of their organizations. The strong features of each association are emphasized. Such changes are suggested as may strengthen these specific associations and as may make them better models for other cooperatives to emulate.
2. To suggest to the management and members of other cooperative gin associations changes which may be made in their own organizational set-up and operating procedure in light of the experiences of these four highly successful cooperative associations.
3. To guide cotton growers about to organize a cooperative gin association. A desirable form of organization, with special emphasis on the capital structure, and a workable operating program, with special emphasis on an economic volume of ginning as related to the size of gin, as revealed by the experiences of these four gin associations should be suggestive to cooperative leaders starting new gin associations.
4. To demonstrate the manner in which data and information in the files of a cooperative association may be analyzed and vitalized to tell a story of significant educational value both to members and to leaders in all capacities.
5. To reveal to all persons with specific or general interests in cooperative enterprises some of the more fundamental factors assuring the success of a cooperative undertaking.

The three outstanding requisites involved in operating a cooperative gin as a successful business are: An economic volume of ginning; operations at reasonable efficiency; and an adequate gin income per bale. Every successful cooperative gin in Texas has had, without exception, a large volume of ginning. Efficiency greater than average and gin income greater than average as the means of compensating for the paralyzing effects of low volume of ginning fail as alternatives for large volume. There is no substitute for large volume.

This Bulletin closes with a general discussion on factors of success and failure as applied to cooperative gin associations. This treatment is based in part on points gleaned from the rather voluminous correspondence between the Houston Bank for Cooperatives and the cooperative cotton gin associations which this Bank has financed.

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SUCCESSFUL COOPERATIVE COTTON GIN ASSOCIATIONS IN TEXAS

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Of all types of local agricultural cooperatives the associations performing essential processing services are most likely to succeed. Growers must obtain ginning service at the local gin point before disposing of their lint and cottonseed. It would seem that the service of ginning should offer a most fruitful field for a local cooperative. Since the cotton gin had its beginning 150 years ago, the rather recent emergence of the cooperative gin association seems to refute general experience.

TARDY DEVELOPMENT OF GIN ASSOCIATIONS

The tardy development of the cooperative gin association was the result mainly of two factors. In the first place, for about one hundred years following the invention of the cotton gin, ginning service was

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operated principally as an integral part of the plantation economy and not as a commercial business. In the second place, during each recurring cotton crisis, growers have invariably focused their attention on the price situation; ginning has been given scant recognition as being related to the cotton growers' problem of obtaining an adequate return for their productive efforts.

The small single stand gin and the separate press, both operated by mule- or horse-power, did not qualify ginning as a business undertaking. The cooperative gin had to wait until ginning developed as a commercial enterprise. The combination of the gin and the press in a single operating unit and the adoption of steam power facilitated increases in the capacity of a gin plant to a point making commercial ginning feasible. The rapid expansion of cotton production in many sections of Texas, especially after about 1905, served as the economic urge compelling the development of commercial ginning.

From the very beginning of cotton production, the grower has been producing for the market. Consequently, the cotton farmer has been extremely price conscious. In periods of low cotton prices all efforts to improve the economic status of the grower have been concentrated largely on various programs to raise the price. This has colored the type of activities fostered by organizations of cotton growers. Schemes have been tried from out and out price fixing (always at a fair price) to devices for feeding the market to prevent the "autumnal dip." The Farmers' Union, for instance, sponsored both the farmers' gin association and the cotton warehousing association. In its efforts to solve marketing problems, the Farmers' Union gave its vote of confidence to the warehousing association rather than to the farmers' gin association. This was not accidental in that the warehousing association assumed an essential role in holding cotton off the market, a measure considered of paramount importance in the control of cotton marketing.

Dr. R. L. Hunt in his searching history of farmer organizations in the Southwest[1] makes no reference to farmers' gins in his discussion of the Farmers' Alliance; he mentions farmers' gins but briefly in his story of the Farmers' Union (page 130); and he refers briefly to the farmers' gins in his discussion of the Farm-Labor Union of America (pages 180-182). Dr. Hunt's treatment of the various farmer organizations was based on reports and documents available as well as on information gained directly from men and women who had been leaders in those organizations. It would seem reasonable to conclude that Dr. Hunt reflects the judgment of leaders and members of those farm organizations as to the merits of the various programs inaugurated. Clearly the role of the farmers' gin in the drama of those general farmer organizations scarcely attained to a speaking part.

Joe E. Edmundson discussed the subject, "What the National Farmers' Union is Doing", at the Chicago Meeting on MARKETING AND FARM

[1] Hunt, A History of Farmer Movements in the Southwest, 1873-1925. Private Printing by Author. 1935.

CREDIT, November 29-30 and December 1-2, 1915. Mr. Edmundson was the National Lecturer, Texas Division of the Farmers' Educational and Cooperative Union of America. His discussion was devoted almost entirely to the work of the Farmers' Union as related to cotton. He did not refer to the Farmers' Union gins in his main discussion even though more than 75 such gins had been organized in Texas by that time. Only after someone in the audience raised a specific question regarding co-operative gins did he state: "We have some cooperative gins there." But he had scarcely anything to say about the accomplishments of the Farmers' Union gins.

NATIONAL RECOGNITION OF COOPERATIVE GIN MOVEMENT

If the papers and discussions before the American Institute of Co-operation may be taken to reflect an evaluation of cooperation the country over, National recognition of the cooperative gin movement has been belated. At the first meeting of the American Institute, C. O. Moser read a paper on the cooperative marketing of cotton. Only after a question had been raised from the floor did he discuss briefly the possibilities of the cooperative gin in a scheme of cooperative marketing of cotton.[2] At the first session of the American Institute held in the South at the Louisiana State University in 1929, several references were made to the cooperative gin as being eligible to a facility loan from the Revolving Fund of the newly created Federal Farm Board. The first paper dealing with the cooperative gin movement was presented at the second session of the American Institute held in the South at the University of North Carolina in 1933.[3] Not until the third session of the American Institute held in the South at Atlanta, Georgia, January 12-16, 1942, was special consideration given to the cooperative gin movement. Four papers were presented.[4] Prior to 1930, but three studies had been made of the cooperative gin movement.[5] These studies were of a preliminary character. The Cooperative Research and Service Division of the Farm Credit Administration inaugurated a study of cooperative gins in Oklahoma in 1933. The following year this study was expanded to include

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[2] Moser, Principles and Practice of Commodity Marketing. American Cooperation, 1925. Volume II, pp. 676-678.

[3] Dickson, The Place of Cooperative Gins in a Cooperative Marketing Set-up. American Cooperation, 1933. pp. 454-473.

[4] Herrmann, Has Cooperative Ginning a Place in the Southeast? pp. 289-295.
Paulson, Strength and Weakness of the Cooperative Gin Movement. pp. 296-304.
Smith, Supply Operations of Cooperative Gin Associations. pp. 308-315.
Folda, How to Organize, Operate and Manage a Cooperative Cotton Gin. pp. 320-330. American Cooperation, 1941.

[5] Eliot, Farmers' Cooperative Gins in Texas. July, 1920. Special Circular, Texas Agricultural Experiment Station.
Buchanan, The Development of Cooperative Cotton Gins in Georgia. August, 1927. Bureau of Agricultural Economics.
Hathcock, Development of Cooperative Cotton Gins in Northwest Texas. June, 1927. Bureau of Agricultural Economics.

Texas. A series of publications has been issued.[6] The Agricultural Experiment Station of New Mexico has recently made a study of cooperative gins in that State.[7]

It may be of interest to note in passing that the proper place of the cooperative gin in the general scheme of cooperative cotton marketing has been brought into question. Some advocates of cooperation have held that the gin must be subordinated to a more general program of cooperative marketing. This view is reflected in the papers and discussions before the American Institute of Cooperation of Moser and Dickson referred to above. The staggering losses reported by Dickson (pages 459-461) of a centralized gin system used as a means of "buying" cotton by a cooperative cotton marketing association should dampen any advocacy of gins being operated as appendages of a centralized agency rather than as local cooperatives whose primary function is to furnish ginning service.

Any plan of cooperation as applied to cotton can stand on no firmer foundation than the local cooperative gin. Possibilities of large scale marketing in the handling of the lint and in the disposal of the cottonseed are most promising to groups of cooperative gins bent on carrying their activities beyond the local sphere of ginning service.

FARMERS' ALLIANCE GINS

In the unfolding drama of the cooperative gin movement in Texas, the Farmers' Alliance gins took the first curtain call. Among these farmers' gins was one near Greenville organized by W. W. Cole. Definite records on twenty of these gins are available. It is possible that more of these gin associations were organized but not being incorporated no records survive.

Figure 1 shows the location of the Alliance gins by counties.

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[6] Weaver, Accounting Principles for Cooperative Cotton Gin Associations. Bul. No. 2.
Weaver and Herrmann, Cooperative Cotton Gins in Oklahoma, 1933-34. Bul. No. 12.
Weaver and Prickett, Organizing a Cooperative Cotton Gin. Circular C-109.
Herrmann, Development of Cooperative Cotton Ginning. Circular C-112.
Burgess and Weaver, Expenses, Income and Dividends of Oklahoma and Texas Cooperative Cotton Gins. Bulletin 41.
Farm Credit Administration.

[7] Callaway, Organization and Operation of New Mexico Cooperative Cotton Gin Association. Bul. 293.

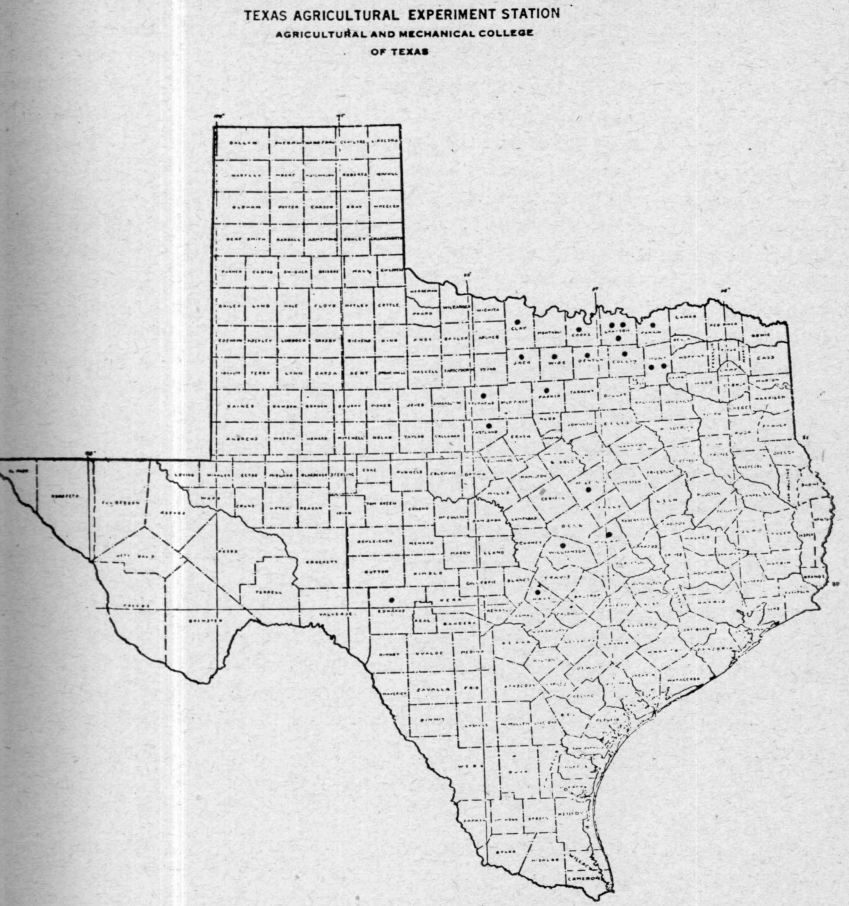

Figure. 1. Location of Farmers' Alliance Gins by Counties.

Table 1 indicates the years the different associations were organized.

Table 1. Farmers' Alliance Gins in Texas

Year Organized	Number of Associations
1886	1
1887	8
1888	2
1889	6
1890	1
1891	1
1892	1
Total	20

The names of thirteen of the associations revealed a combined milling and ginning business. The articles of incorporation of several of these associations contained the provision that the business of the organizations was to be conducted on a cooperative basis. (See Appendix A.) For instance, Article II of the Buda Milling and Ginning Association of the Farmers' Alliance stated: "This corporation is formed and created for the purpose of owning and managing a milling and ginning establishment upon a cooperative plan . . . " Nothing that followed, however, indicated what the cooperative plan might be. The Dexter Gin and Milling Cooperative Association made two provisions of a cooperative nature. "No person's interest in said gin and mill shall exceed two hundred dollars ($200) . . . " "Each shareholder shall have one vote on all questions coming before the association regardless of stock taken . . . " No statement was made regarding the distribution of profits as cash dividends. Presumably dividends were paid on the stock.

The articles of incorporation of several associations provided that only members of the Farmers' Alliance could become members of these local associations. In several cases only members of the Alliance could be employed. The Dexter Association had this provision: "No person shall be connected with said gin and mill who is not a member of the Farmers' Alliance in good standing."

The Alliance gins were short-lived. The influence of these gins on the cooperative gin movement in Texas is difficult to appraise. To the extent that members of the Alliance later became members of the Farmers' Union and exerted an influence in the organization of Union gins, the experiences of the earlier period were a factor in shaping later developments.

FARMERS' UNION GINS

The second important development in the farmers' gin movement in Texas was sponsored by the Farmers' Union. Definite records have been obtained on 95 Union gins. There is reason to believe that a considerable number of these gins were not incorporated and hence no readily available records were left. Thus the total number may have been somewhat greater than 95.

In each year from 1905 to 1921, one or more Union gins were organized. The movement was most verile during the 10-year period 1905-1914 when at least 73 gin associations were started. Figure 2 shows the distribution in the state of the 95 Farmers' Union gin associations. All the gins organized before 1913 continued but a few years before failing. These earlier gins were of the farmers' stock type. The Farmer Union Gin Company of Chillicothe, organized under the sponsorship of W. W. Coles[8] and incorporated July 1, 1906, may be taken as typical of the early Farmers' Union gins. The Articles of Incorporation plainly indi-

[8] Paulson, Father of the Cooperative Gin. Farm and Ranch. June 15, 1936.
----------, Distinguished Leader in Texas Agriculture—W. W. Cole. Progress Report No. 501, Jan. 1938. Texas Agricultural Experiment Station.

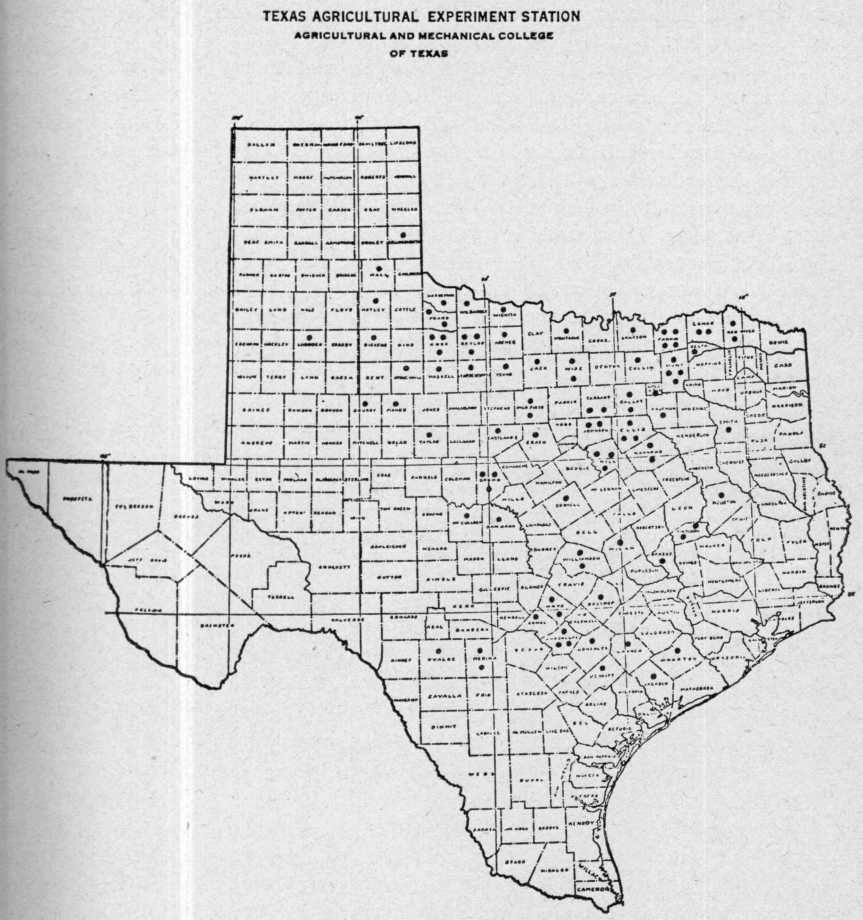

Figure 2. Location of Farmers' Union Gins by Counties.

cated that this association was a strictly farmers' stock enterprise. (See Appendix A.) The Association operated successfully for three seasons. Net profits of ginning in that period were sufficient to pay for the gin plant. Patrons began making preparations for the fourth season with the happy realization that profits henceforth would be available as cash dividends. The grower members, however, were rudely awakened in learning that control had been snatched from their hands. Investors other than cotton grower members had acquired a majority interest in the stock. This association failed, not because of lack of patronage; it failed, not because of poor management; it failed, because of its very success. Large profits attracted investors who did not have cotton to

gin but who wished to share in the gains made on the service furnished cotton growers.

The failure of the Chillicothe association was in no sense unique. "A great many gins have ceased to be farmers' gins by the passing of a majority of the stock into the hands of other interests. When a few shares of stock were for sale because a stockholder had left the community, had become dissatisfied, or had found it necessary to realize on his gin stock, there was usually someone in the community to take it off his hands, but not necessarily another grower. In a few cases, where the gins were unusually successful financially, it has been the local business man with capital to invest who has taken the initiative in buying up shares of gin stock. In that way, many gins have passed under the control of men who were not farmers. Obviously, this constitutes a weakness in organization."[9]

The years of organization of 89 Farmers' Union gins which have failed and of six gins which are still operating are indicated in Table 2. The

Table 2. Farmers' Union Gins in Texas

Year Organized	Present Status		Total
	Active	Failed	
1905	--	3	3
1906	--	9	9
1907	--	18	18
1908	--	5	5
1909	--	3	3
1910	--	7	7
1911	--	10	10
1912	--	7	7
1913	1	6	7
1914	1	3	4
1915	--	2	2
1916	--	1	1
1917	--	1	1
1918	--	1	1
1919	2	1	3
1920	1	1	2
1921	1	1	2
Unknown	--	10	10
Total	6	89	95

oldest cooperative gin in Texas today is the Rule Cooperative Gin Company organized in 1913 as the Farmers District Union Gin Association. This association was incorporated originally under the general corporation statutes. But the by-laws of the association adopted April 26, 1913, contained four provisions definitely making its operations cooperative. (See Appendix A.) These provisions were: (1) Each member could own but one share of stock (par value $25) and membership was limited to cotton growers. (2) Profits accruing to a non-member patron were permitted to accumulate until they totaled $25; this patron was then given a share of stock making him a member; thus open membership was

[9] Hathcock, Development of Cooperative Cotton Gins in Northwest Texas. p. 3.

maintained in the association. (3) A member had but one vote on any measure considered at any meeting of the stockholders. (4) Profits available for cash dividends, after all indebtedness had been cleared and after 10 per cent had been set aside for repairs and upkeep, were distributed on a per bale basis to the patrons.

Very shortly the by-laws of the Rule association were revised. A few of the changes are worthy of notice. Membership was restricted to members "in good standing in the Farmers' Union." A member could hold stock to a maximum of $500. This provision was made for the sale of stock: "There shall be plainly written or printed on each certificate non-negotiable except to members of the Farmers' Union in good standing which shall have full force and effect except when such stock is sold by and with the approval of the President of the board of directors such approval shall be written on the certificate being sold." A rather unusual provision was included regarding the control of the association. "The supreme power of the association shall forever remain in and through a majority of the stockholders . . . No law shall be repealed or annulled as to abridge, abrogate, nullify or in any manner remove this power from the stockholders . . . " An amendment adopted May 22, 1915, provided for new members thus: "Any farmer may become a stockholder in the gin association to the amount of one share of stock by becoming a member of the Farmers' Union and patronizing the gin to the amount of $25."

At the beginning of the Rule association, the question whether dividends should be paid on the stock or on the patronage occasioned much argument. The advocates of the patronage basis finally won. The outstanding example cited of the advantage of belonging to the cooperative gin was that of the cotton grower who moved into the community, took out a $25 share of stock and that fall collected a cash patronage dividend of $475 on his ginnings. The association was reincorporated under the Cooperative Marketing Act in 1923.

The second oldest cooperative gin in Texas is the Farmers Union Gin of Munday started in 1914. To avoid the pitfalls of the farmers' stock type of organization, the association was not incorporated for many years. The success of this cooperative has been outstanding. The volume of ginning over the years has been very large and net profits available for cash dividends have reached imposing proportions. In recent years, the members discovered that their association was a copartnership with unlimited liabilities for the individual members. To avoid the hazards of this situation, the association was incorporated under the Cooperative Marketing Act in 1937.

Regarding one of the outstanding successes of the organizations sponsored by the Union, Dr. Hunt makes this pertinent observation: "It is interesting to contemplate what might have happened to the Farmers' Union in Texas if other locals had organized along the lines followed by the Munday Local Union."[10]

[10] Hunt, A History of Farmer Movements in the Southwest, 1873-1925. p. 130.

According to the records available, the Rhineland Union Gin, organized in 1919, appears to have been the first cooperative gin incorporated under the Society Act of 1917. Furthermore, the Farmer Union Gin of Yoakum, organized in 1921, appears to have been the first cooperative gin incorporated under the Cooperative Marketing Act. The Farmer Union Gin of Yorktown, organized in 1919, became a full-fledged cooperative by reincorporating under the Cooperative Marketing Act in 1938. The Farmer Union Cooperative Gin of Memphis, organized in 1920, became a cooperative association by reincorporating under the Cooperative Marketing Act in 1937.

The vast majority of the Farmers' Union gins were organized as farmers' stock associations. But of the six Union gins which survive today, four were organized originally as cooperatives or with the essential features of a cooperative, and only two as farmers' stock. This experience should be unanswerable evidence as to the greater adaptability and stability of the cooperative type of gin association than of the farmers' stock type of association.

It would seem that the salvaging of six associations out of 95 represents but meager success for the Farmers' Union gin movement. But this survival of 6 per cent, insignificant as it may seem, is a vast improvement over the Farmers' Alliance experience in which the mortality of the gin associations reached 100 per cent.

THE SOCIETY GINS

A full realization of the weakness of farmers' stock organizations, especially of the warehouse and gin associations sponsored by the Farmers' Union, led to the passage of the Society Act of 1917. This Act was prepared by Walton Peteet, who at that time was Marketing Specialist with the Texas Agricultural Extension Service. The third important period of cooperative gin development in Texas featured the Society gins.[11]

All cooperatives organized under the Society Act were, of course, incorporated. Thus all the Society gins were incorporated. The names of most of the Society cooperatives, however, do not indicate the type of business. Hence difficulties arise at times to determine whether a specific Society is a gin or not. Definite records have been obtained on 133 Society gins. The years of organization of the Society gins are shown in Table 3. Eighty gins which were organized under the Society Act are still active. This represents a survival of 60 per cent, a notable improvement over the record made by the Farmers' Union gins. Twenty-one of these Society gins have been reorganized under the Cooperative Marketing Act. Thus 59 Society gins are active at present.

During the 10-year period 1921-1930, about two-thirds of the 133 Society gins were organized. The climax of this period came during the three years 1928-1930 when 58 were started, or 44 per cent of all Society

[11] Hathcock, Development of Cooperative Cotton Gins in Northwest Texas. Herrmann, Development of Cooperative Cotton Ginning. pp. 19-28.

Table 3. Farmer Society Gins in Texas

Year Organized	Present Status		Total
	Active	Failed	
1919	1	--	1
1920	2	1	3
1921	1	--	1
1922	3	1	4
1923	1	1	2
1924	2	--	2
1925	3	4	7
1926	5	4	9
1927	4	1	5
1928	13	9	22
1929	9	9	18
1930	11	7	18
1931	--	5	5
1932	--	--	--
1933	5	1	6
1934	10	4	14
1935	1	3	4
1936	1	2	3
1937	1	--	1
1938	3	--	3
1939	1	--	1
1940	1	--	1
1941	--	--	--
1942	1	--	1
Unknown	1	1	2
Total	80	53	133

gins. Figure 3 shows the distribution according to counties of the Society gins.

Dickson reported 82 active Society gins in 1930-31.[12] According to Table 3, 92 Society gins had been organized by this time, indicating that ten had failed. Fifteen of the 82 Society gins were reported as outstandingly successful and the remainder as moderately successful, breaking even, or in difficulty. As there were 59 Society gins in 1933-34, 23 failed during the two seasons 1931-32 and 1932-33. The Society gins were predominant as late as 1933 as 59 of 78 gin associations were of the Society type, or 76 per cent of the total.

The Society Act in one stroke sought to eradicate the evils of the farmers' stock association by permitting the organization of non-stock associations only. Many cotton growers even today are positive that a true cooperative must be incorporated under the Society Act. They do not seem to realize that the Cooperative Marketing Act provides for a workable non-stock type of cooperative association as well as for a stock type with ample protection over sale and transference of stock and with control over the distribution of profits insuring benefits to patrons rather than to owners of stock.

The Society gins can do business with members only. According to the Society Act, new members can be accepted only on a favorable vote

[12] Dickson, The Place of Cooperative Gins in a Cooperative Marketing Set-Up. American Cooperation, 1933. pp. 458-459.

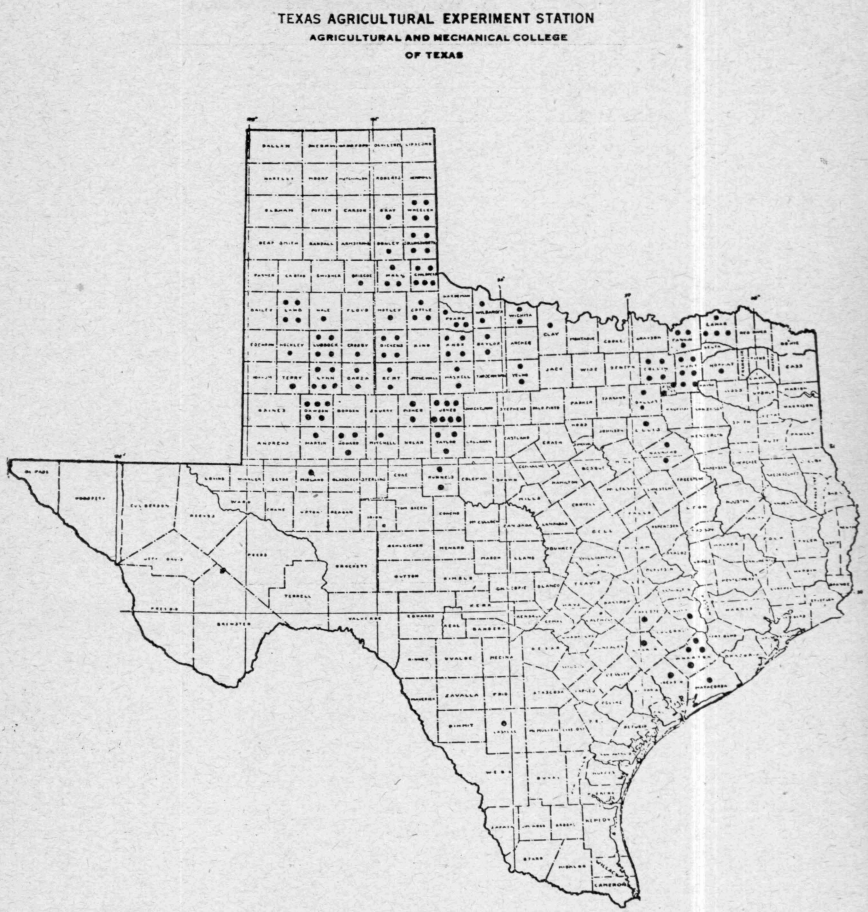

Figure 3. Location of Society Gins by Counties.

by the board of directors. This provision is rather generally disregarded, especially by associations basing membership on a small annual fee. In such instances a grower ginning a bale of cotton may be accepted as a member without any action by the board.

The Society Act provides for what is called "Working Capital." This is a misnomer from the accountant's standpoint. This fund may be based on an assessment such as $25, $50, or $100 per member with the contribution left in the fund during the life of the membership. In such cases, the "Working Capital" is akin to a share of voting stock in a stock association. In other instances, members have been called upon to contribute to the "Working Capital" according to financial ability up to a maximum of $500. In a large percentage of the Society gins, the

"Working Capital" is the only part of the investment in which members have definite equities. Many of the Society gins used the "Working Capital" only in the initial financing of the association. In such instances, these funds were returned to the members after the indebtedness of the association had been retired.

The Society gins as non-stock presumably place the emphasis on membership relations rather than on investment relations to the association. Several of the Society gins have the provision in their by-laws that of the profit available for cash dividends, a definite percentage be set aside as cash dividends on the funds invested in the "Working Capital." In 1933-34, investors in the "Working Capital" of one of these Society gins realized returns of 42 per cent on these funds. This clearly over-emphasized the investment relations and furthermore, was an outright violation of the regulations of the Internal Revenue concerning income tax exemptions for cooperatives.

Twenty, or more, of the Society gins have been markedly successful. Efficient management and adequate gin incomes per bale, coupled with large volumes of ginning, have assured lucrative profits available for cash patronage dividends. The Society gins ushered in the cooperative gin as a successful going concern in Texas.

THE ERA OF THE HOUSTON BANK FOR COOPERATIVES

The fourth, and by far the most important, period in the development of the cooperative gin movement in Texas is still unfolding. The beginning of this period dates from 1934 with the establishment of the Houston Bank for Cooperatives. As nearly two gin associations out of every three organized since 1934 have been financed by the Houston Bank, this institution has exercised a significant influence in directing the general course of cooperative gin developments.

Table 4 was compiled with the strict purpose of emphasizing developments in the cooperative gin movements since 1934. The location of these associations by counties is shown in Figure 4. Information on cooperative gins of all periods such as articles of incorporation, year of organization, location, and type of association is available in the office of the Secretary of State of Texas. A complete file is maintained on all incorporated gins both active and inactive. J. E. Montgomery of the Texas State Department of Agriculture helped greatly, as did Emmett Cook, Secretary of the Texas Cooperative Ginners Federation, in the task of compiling a list of all active cooperative gin associations of today. The reports on volume of ginning of all gins to the Texas office of the Agricultural Adjustment Administration were also helpful as a check on active cooperative gins as the type of ownership of each reporting gin was indicated. The gin associations listed in Table 4 as having failed are by years of organization and not by years of failure. Furthermore, the only failures included are those of 1934 and later.

The gin associations listed as "never completed" are those for which

Table 4. Cooperative Gin Associations of Texas June, 1942

Year Organized	Present Status			Total
	Active	Failed	Never Completed	
1913	1	--	--	1
1914	1	--	--	1
1919	1	--	--	1
1920	1	1	--	2
1921	2	--	--	2
1922	3	--	--	3
1923	5	--	--	5
1924	5	--	--	5
1925	3	--	--	3
1926	4	--	--	4
1927	5	--	--	5
1928	16	2	--	18
1929	12	2	--	14
1930	11	1	--	12
1931	2	1	--	3
1932	1	--	--	1
1933	5	--	--	5
1934	22	6	1	29
1935	53	13	1	67
1936	32	4	1	37
1937	29	9	4	42
1938	61	1	14	76
1939	29	4	17	50
1940	36	--	4	40
1941	22	--	3	25
1942	3	--	--	3
Unknown	6	--	--	6
Total	371	44	45	460

charters were obtained but the organization was never carried to the point of actually getting into the ginning business. A large percentage of these attempts at organization may be listed under the general heading "gin sales." In such cases, the owners of gin plants were attempting to sell their facilities to cooperative gin associations. As a means of hastening sales, some of these plant owners were instrumental in obtaining charters for the prospective cooperative associations. For various reasons, however, a number of these associations did not purchase the gin plants. More than half a dozen of these failures to complete organization were cases of farmers' stock gins attempting to reorganize as cooperatives. After the charters were obtained, certain obstacles developed preventing final reorganization. Obviously, in any summary of successes and failures of gin associations since 1934, the incompleted associations should be disregarded.

According to Table 4, 330 gin associations have been organized during 1934 and later. Since 293 of these are active today, the survival to date is 89 per cent. It is to be expected, however, that failures will occur among these 293 gin associations.

The Houston Bank for Cooperatives has had a decided influence on the type of cooperative gin association organized. The Bank has been rather insistent that its borrowing cooperatives be of the stock type.

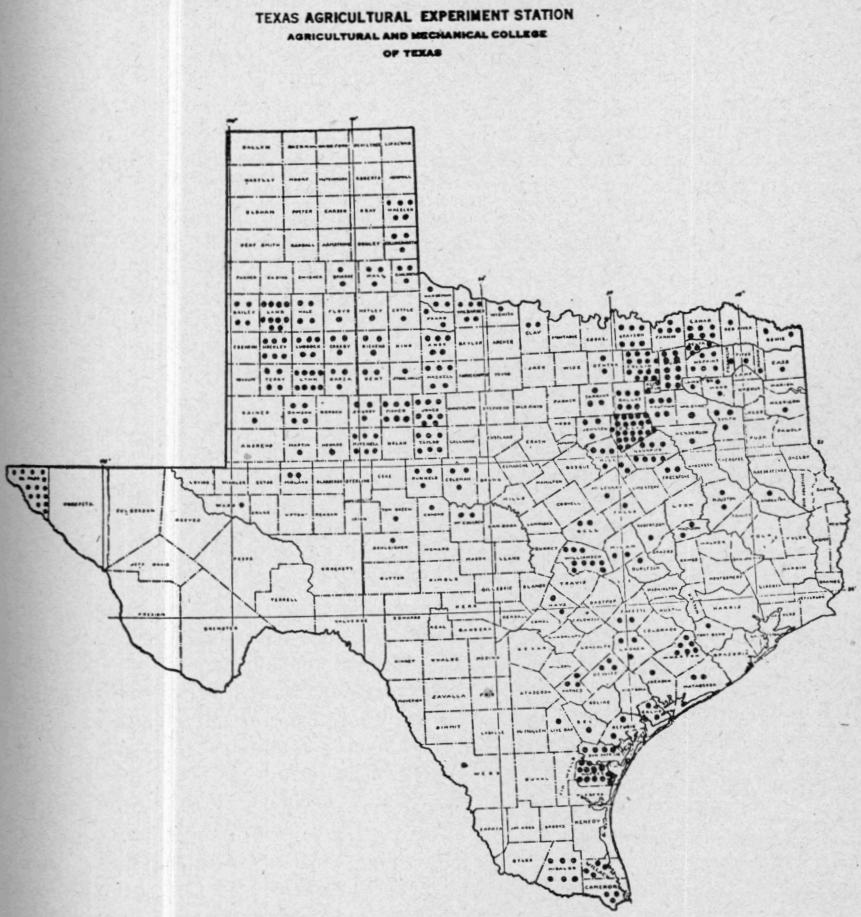

Figure 4. Location by Counties of Active Cooperative Gin Associations as of June, 1942.

This served to place the ban on the Society gins. Of associations organized during 1934 and since, 30, or 9 per cent, were incorporated under the Society Act. Of these associations, but 20 are active today. On the other hand as pointed out above during 1934 and since, 21 Society gins have been reorganized under the Cooperative Marketing Act. Many of these gins have been clients of the Houston Bank for Cooperatives. While 76 per cent of the active cooperative gins of 1933 were of the Society type, but 16 per cent of the active cooperative gins today are of the Society type.

FOUR SUCCESSFUL COOPERATIVE GIN ASSOCIATIONS IN TEXAS

In this section of the Bulletin, the experiences of four cooperative gin associations are discussed with considerable detail. The treatment is in the nature of a case study. Emphasis is placed on the business phases of operations. These associations from widely scattered sections of the State are examples of a rather limited number of highly successful gin associations.

It is hoped that this analysis may reveal to cooperatives in general some of the more fundamental factors of successful business operations. It is also hoped that managers and officials may obtain suggestions for making better use of data and information in their own files as means for effective membership education.

Childress Farmers' Cooperative Society

The members of the Childress Farmers' Cooperative Society have reasons to be proud of the accomplishments of their association. During the 20 seasons 1922 to 1941, 122,530 bales of cotton were ginned. This is an average of 6,127 bales a season, a truly remarkable performance. Patrons were paid a cash patronage dividend totaling $371,947, or an average of $3.03 on every bale ginned. The entire investment in ginning facilities was financed from profits of operation. According to a most conservative estimate, the net worth of the association, as of March 31, 1942, was $62,659. In terms of the total volume of ginning, this value of ginning facilities is equal to 51 cents a bale on the total volume of ginning. Thus, over the 20-year period, the Childress cooperative realized an average net profit of about $3.54 on every bale ginned.

Association Organized in 1922

Cotton growers organizing a cooperative gin in the early 1920's faced problems distinctly different from those of growers organizing today. At that time, to organize was to set sail on an uncharted sea. The record of farmer gins the preceding 25 years was distinctly discouraging. No credit institutions existed specializing in serving cooperatives as do the Cooperative Banks of today established under the Farm Credit Administration. Foreboding as the outlook for organizing a cooperative might be, cotton growers in the Childress area were confronted with two problems. Ginning charges were exceedingly high (rates of 50 cents a cwt. on picked cotton and 60 cents on snapped cotton were in force). Ginning facilities were so inadequate that growers were greatly inconvenienced in securing ginning service. The success of two nearby cooperative gins organized in 1920, and the steps being taken at Quanah to organize together with the influence wielded by W. W. Cole, the pioneer of the cooperative gin movement, were factors turning the attention of cotton growers in the Childress area to a cooperative gin as the means of solving local ginning problems.

The members decided to build a double battery plant involving an in-

vestment of $52,000. Only 90 farmers could be found willing to chance the adventure of supporting the cooperative. These members assumed a financial responsibility averaging $575 per member. The members could raise no more than $5,000 in cash ("Working Capital") to apply on the investment in the gin plant. The financing of the remaining $47,000 was made possible by the manufacturer of the gin machinery taking a first mortgage of $41,000 and a local lumber dealer taking a second lien of $6,000. The profits of operation the first three seasons were sufficient both to retire the indebtedness and to reimburse the cash advances of the members. To retire the principal and the cash advances and to pay the interest on the indebtedness at the rate of 10 per cent, profits on the 11,337 bales ginned during the first three-year period must have been about $5.50 a bale. This early success together with the large cash patronage dividends paid members in succeeding years has won substantial support from cotton growers.

It is apparent that a few farmers assumed all the risks of the early perilous stages while the many flocked in to reap the benefits after success was assured. To this general statement, there is at least one notable exception. A farmer who still is not a member has refused many invitations to join. The reason he gives for not joining is that since he did not support the cooperative in the early days when his patronage was urgently needed, he has no moral right to share in the later benefits.

Cost of Ginning Service to Member

Members of cooperative gins in Texas usually pay the competitive charge for service at the time of ginning. This may be considered as the "first money cost" of ginning. If the growers were patronizing a private gin, this charge would represent their cost of ginning service. But in the cooperative, the members are credited with the profit, or loss, realized in operating the gin. The first money cost with the profit deducted, or with the loss added, may be viewed as the members' net "out-of-pocket" cost of ginning.

Figure 5. Gin plant of the Farmers' Cooperative Society of Childress.

Members of cooperative gins in Texas manifest a keen interest in the patronage dividend they may receive at the end of the season. The total of the dividend depends upon such factors as: the amount of the charges made for ginning and bagging and ties; the cost of operating the gin plant; the cost of bagging and ties; the margin of profit on the cottonseed handled; and the relation between the net profit and the amount distributed as dividends. In the final analysis, the member of a cooperative gin should be mainly concerned about his out-of-pocket cost of ginning. First money costs, net profits, and out-of-pocket costs per bale for the 15-year period 1927-28 to 1941-42 are summarized in Table 5.

Table 5. First Money Costs, Profits, and Out-of-Pocket Costs of Ginning to Members of the Childress Farmers' Cooperative Society (Per Bale)

Year	First Money Cost				Net Profits	Out-of-Pocket Costs	
	Gin Toll	Per Pattern B. & T.	Total	Relative Average 100.0		Net	Percentage of First Money Cost
1927	$6.97	$1.75	$8.72	126.2	$6.22	$ 2.50	28.7
1928	7.30	1.50	8.80	127.4	4.07	4.73	53.7
1929	8.21	1.50	9.71	140.5	4.80	4.91	50.5
1930	7.26	1.25	8.51	123.2	−3.57	12.08	142.0
1931	4.14	1.00	5.14	74.4	2.25	2.89	56.2
1932	4.83	1.00	5.83	84.4	3.46	2.37	40.7
1933	5.92	1.00	6.92	100.1	4.59	2.33	33.6
1934	6.15	1.25	7.40	107.1	−4.76	12.16	164.2
1935	5.78	1.25	7.03	101.7	5.18	1.85	26.4
1936	4.80	1.25	6.05	87.6	−1.41	7.46	123.4
1937	4.76	1.26	6.03	87.3	3.43	2.60	43.1
1938	4.59	1.27	5.86	84.8	1.76	4.10	70.1
1939	4.88	1.26	6.14	88.9	−1.87	8.01	130.4
1940	4.85	1.51	6.36	92.0	1.74	4.62	72.0
1941	5.69	1.75	7.44	107.7	5.10	2.34	33.4
Average	5.60	1.31	6.91	100.0	3.51	3.40	49.2

Several features in Table 5 merit close scrutiny. The amounts listed under first money costs as gin tolls and charges per pattern for bagging and ties show what the member paid at the time of ginning. Since these charges were, in the main, competitive they indicate the cost of ginning service to the cotton grower patronizing the privately operated gins. (In more recent years, while the Childress cooperative has charged a toll of 25 cents per cwt. of seed cotton, competitive ginners have charged 20 cents.) To the question, Did it pay growers in dollars and cents to belong to the Childress society? the answer is to be found in a comparison of first money costs with out-of-pocket costs. For the four most favorable seasons, 1927-28, 1933-34, 1935-36, and 1941-42, out-of-pocket costs were 29, 34, 26, and 33 per cent of the first money costs. For the four short-crop seasons 1930-31, 1934-35, 1936-37, and 1939-40, the first money cost fell short by 42, 64, 23, and 30 per cent of matching the costs of operating the gin plant. For the 15-year period 1927-28 to 1941-42, the average out-of-pocket cost was 49 per cent of the first money cost. It should be added, however, that these computations do not take into account the cost of the capital invested in the gin plant which the

members had to furnish. Since the fixed capital was financed out of profits, the cost of capital to the members has resulted in reducing the part of the first money cost returnable as cash patronage dividends from 51 per cent to 44 per cent. That is, 7 cents of each dollar of first money cost has financed the gin investment. For the 15-year period out of every dollar of first money cost, members paid 81 cents for gin tolls and 19 cents for bagging and ties.

An examination of the ratios of first money costs with the average of the 15 seasons taken as 100 per cent, indicates a downward trend in the charges made for ginning service. The average first money costs by successive five-year periods were $7.93, $6.57, and $6.43. The averages of the gin charges to members the second and third periods were lower by 17 and 19 per cent than those of the first period. While it cannot be said that the lowering of gin charges was entirely the result of the operation of the cooperative gin, the assumption seems valid that the cooperative was a big factor in effecting these savings to cotton growers in general. The decided drop in gin charges during 1931-32 and 1932-33 indicates that ginners made adjustments in favor of cotton growers during the depths of the depression.

Costs and Net Profits of Ginning

The net profits shown in Table 5 are dependent upon three factors: (1) the profit, or loss, on ginning which is the difference between the gin toll and the cost of operating the gin plant; (2) the profit on bagging and ties which is the difference between the sales price to the members and the purchase price to the cooperative; and (3) the profit on cottonseed which is the difference between the sales price to oil mills and the

Table 6. Costs and Profits of Operations (Per Bale)
Childress Farmers' Cooperative Society

Year	Costs			Profits				Bales Ginned
	Ginning		B. & T.	Ginning	B. & T.	C/S	Total	
	Standard[1]	Actual						
1927	$ 2.93	$ 4.37	$0.70	$2.60	$1.05	$2.57	$6.22	9,013
1928	3.92	5.24	0.91	2.06	0.59	1.42	4.07	5,133
1929	3.72	4.98	0.91	3.23	0.59	0.98	4.80	5,737
1930	11.26	11.68	1.01	−4.42	0.24	0.61	−3.57	1,198
1931	3.19	2.59	0.79	1.55	0.21	0.49	2.25	8,049
1932	2.88	2.28	0.61	2.55	0.39	0.52	3.46	10,547
1933	2.91	2.64	0.64	3.28	0.36	0.95	4.59	10,871
1934	11.70	12.81	0.70	−6.66	0.55	1.35	−4.76	1,278
1935	3.16	3.00	0.72	2.78	0.53	1.87	5.18	8,965
1936	7.70	8.22	0.81	−3.42	0.44	1.57	−1.41	2,458
1937	2.86	2.52	1.02	1.84	0.24	1.35	3.43	13,523
1938	4.24	4.50	0.95	0.09	0.32	1.35	1.76	6,069
1939	7.90	8.28	0.93	−3.40	0.33	1.20	−1.87	2,461
1940	4.77	5.17	0.99	−0.32	0.52	1.54	1.74	5,023
1941	3.32	3.46	1.31	2.22	0.44	2.29	4.95	9,722
Average	3.71	3.93	0.86	1.67	0.45	1.39	3.51	6,670

[1]According to cost equation for Large Gins, High and Low Plains Area. See Appendix B.

purchase price paid members. Table 6 shows a breakdown of the various items of costs and profits.

Over the 15-year period the average cost of ginning was 6 per cent greater than the standard cost. Out of every dollar of net cost of ginning service, members paid 82 cents to cover the cost of operating the gin plant and 18 cents to cover the cost of bagging and ties. The sources of each dollar of net profit were: 47 cents from ginning; 13 cents from bagging and ties; and 40 cents from cottonseed. Ginning costs per bale ranged from a low of $2.28 in 1932 to a high of $12.81 in 1934.

The average profit of $3.51 a bale has made easy the profit-financing of the investment in the gin plant; the remainder of the profits distributed as cash patronage dividends has served to emphasize the advantage of members operating their own cooperative gin. Nevertheless, the profits of $1.67 a bale on ginning and 45 cents a bale on bagging and ties signify that the first money costs of ginning were higher by those amounts than the actual costs of the service. These profits were in the nature of "over-advances" paid by members to insure a margin of safety in meeting operating costs. The profit of $1.39 a bale on cottonseed indicates that members were paid that much less than the price obtained on the sale of the cottonseed. This profit was in the nature of a "retain."

Dividend Rates

All cash dividend payments of the Childress Society have been made on the patronage basis. Beginning with 1925-26, the first season cash dividends were paid, profits on ginning and bagging and ties were distributed on the running bale. The number of bales on which members left the cottonseed with the gin was determined. This number of bales divided into the profit to be distributed as dividends on the cottonseed established the rate per bale. Thus the total dividend to a given member was made up of two parts: the rate on ginning and bagging and ties was multiplied by the number of bales he ginned; the rate on cottonseed per bale was multiplied by the number of bales on which he left the seed with the gin. This plan of dividend distribution was in force from 1925-26 to 1936-37.

Beginning with 1937-38, the profit to be distributed on cottonseed is divided by the number of cwts. of cottonseed handled. This establishes the dividend rate per cwt. of cottonseed. The cottonseed dividend to a given member is then determined by multiplying this rate by the number of cwts. of cottonseed he leaves with the gin. Table 7 summarizes the dividend rates for each season from 1925-26 to 1941-42.

During the 17-year period 1925-26 to 1941-42, the Childress association enjoyed 13 profit years and suffered four loss years. In two of the profit years, cash dividends were paid in excess of net profits; in two of the loss years cash dividends were paid.

Table 7. Bases for Computing Patronage Dividends Childress Farmers' Cooperative Society

Year	Dividend Rate				
	Per R/B Ginning and B. & T.	Cottonseed			Total Average Dividend Per R/B
		Per Bale on C/S[1]	Per Cwt. on C/S	Aver. Dividend on C/S Per R/B	
1925	$3.00	$2.75		$1.64	$4.64
1926	2.00	----		----	2.00
1927	3.70	2.65		2.23	5.93
1928	2.30	1.60		1.04	3.34
1929	4.00	1.45		0.93	4.93
1930	----	----		----	----
1931	1.15	0.60		0.36	1.51
1932	2.25	0.75		0.50	2.75
1933	3.50	1.50		0.97	4.47
1934	----	----		----	----
1935	2.50	1.50		1.17	3.67
1936	1.00	1.00		0.60	1.60
1937	2.25		15.0 cents	1.00	3.25
1938	2.00		12.5	0.75	2.75
1939	1.00		----	----	1.00
1940	1.50		12.5	0.71	2.21
1941	2.50		20.0	1.40	3.90

[1]Applied only on bales from which all the cottonseed was left with the gin.

Returns on Capital Invested

As indicated above, members of the Childress organization have never received cash dividends on the capital invested in the gin plant. Nevertheless, the net profits computed as returns on the investment should be indicative of the efficiency with which the productive capital has been employed. Table 8 shows the net profit, or loss, of each season as a return on the investment. The average return on the capital invested was 31 per cent. In a private corporation such a return capitalized

Table 8. Returns on the Capital Invested in Fixed Assets Childress Farmers' Cooperative Society

Year	Cost of Fixed Assets	Net Profits	Returns on Investment	Investment Per Bale Ginned
1927	$52,529	$57,141	108.8%	$ 5.83
1928	57,685	21,142	36.7	11.24
1929	59,373	23,968	40.4	10.35
1930	60,065	−5,189	−8.6	50.14
1931	61,881	17,522	28.3	7.69
1932	65,162	36,682	56.3	6.18
1933	71,369	50,786	71.2	6.57
1934	72,559	−6,839	−9.4	56.78
1935	71,799	48,313	67.3	8.01
1936	90,832[1]	−3,331	−3.7	36.95
1937	94,010	47,443	50.5	6.95
1938	95,310	10,621	11.1	15.70
1939	95,671	−4,719	−4.9	38.87
1940	95,715	9,579	10.0	19.06
1941	96,843	49,522	51.1	9.96
Average	76,064	23,509	30.9	11.40

[1]Third battery added to gin plant.

at a rate of 8 per cent would have a market value of $242,000. Still this cooperative has no opportunity of selling its plant at this capitalized figure. All the association could sell would be the physical plant and not the patronage. The plant had a net worth of $63,000 as of March 31, 1942. Evidently, the patronage has a far greater asset value, in this instance, than the physical property.

The profit prospects of charter members of a cooperative are far different from those of the charter members of a private corporation. The organizers of a cooperative assume the same risks of losses if the business fails as do the organizers of a private corporation. But the members of a cooperative do not have the same opportunity of great financial gain on capitalized net profits if the business succeeds as do the stockholders of a private corporation. This difference results from the manner of distributing the dividends: On the stock in the private corporation; on the patronage in the cooperative.

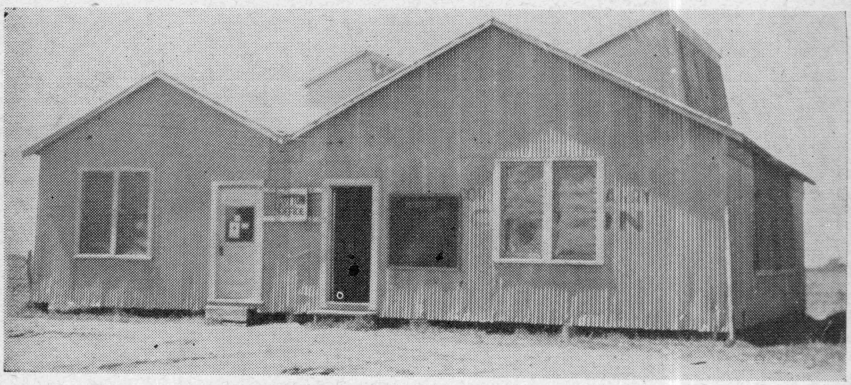

Figure 6. The Farmers' Cooperative Society of Childress has never purchased the cotton of its patrons. Instead facilities have been provided to aid the member in selling his cotton. Cotton office.

Financing Program

In discussing the financing program of the Childress cooperative, the sources of the funds which have been acquired and the disposition of these funds should be of interest. Table 9 itemizes the funds as to sources and disposition. Profits of the seasons prior to 1927-28, with the exception of 1925-26, had to be approximated. It should be evident that the assets of the association have been financed out of profits and the depreciation reserve. Of all funds acquired, 77 per cent has been paid out as cash dividends. Of all net profits realized, 89 per cent has been distributed as cash patronage dividends.

The Childress Society is non-stock. The individual members have no concrete evidence of ownership either in the form of certificates or book entries. While the member holds an ascertainable equity in the association, the net worth divided by the number of members, he cannot sell

Table 9. Analysis of Funds
Childress Farmers' Cooperative Society
Seasons 1922-23 to 1941-42

		Dollars	Percentage of Total
Sources of Funds:			
Net Profits after Depreciation		419,760	87.0
Provision for Depreciation (not involving cash)		61,543	12.8
Correction of Surplus	$14,846		
Less Depreciation Reserve Written Off	13,619	1,227	0.2
Total		482,530	100.0
Disposition of Funds:			
Purchase of Investments[1]		2,615	0.5
Net Additions to Permanent Assets		44,093	9.1
Increase in Working Capital		11,526	2.4
Mortgage Paid		47,000	9.7
Advances of Members Repaid		5,000	1.1
Increase in Prepaid Expenses		349	0.1
Total Used in Operations		110,583	22.9
Paid as Cash Patronage Dividends		371,947	77.1
Total		482,530	100.0

[1]Stock in Cooperative Gin Service and Supply Co.; Houston Bank for Coperatives; Consumers Gas and Oil Co.

his equity if he ceases to be a member. Nor can a non-member enter into membership through the purchase of his share of the equities. Only in the case of liquidation of the association would members share pro rata in the net proceeds of the sale of the property. In a sense, the gin facilities are owned in common by the patrons. Members and officers of the association quite generally speak of their gin as being owned by the community.

The financial organization of the Childress Society is a reminder of the plan of Robert Owen who is considered the originator of the cooperative type of business enterprise. According to Owen, the capital invested in a cooperative should be owned in common. The London Cooperative Congress of 1832, meeting during the time Owen was active in promoting workers' cooperatives, in summarizing the essentials of cooperation declared: "The capital accumulated by such associations should be rendered indivisible . . ."

Undoubtedly, the lack of tangible evidence of ownership on the part of members in the Childress cooperative is an example of the extremes of the reaction to the farmers' stock type of organization. With no equities assigned, or salable, members cannot jeopardize their own patronage-interests by selling their equities to investor-interests.

Charter Members vs. Later Comers

The financial program of the Childress association leads into several complications. While no member paid a penny out-of-pocket to finance the investment, aside from a 10 per cent advance at the time of organi-

zation but later returned, the members who patronized the cooperative the first three seasons paid for the original plant by leaving all profits in the business. The member who was a patron those three years and who very soon thereafter might have withdrawn could not recover any of the profits he had left in the business.

Under the plan of non-assignable and non-salable equities, charter members, as against later comers, have experiences quite in contrast with those of charter members of private corporations. Not only must the organizing members of such a cooperative wage the fight to establish a business, but they must furnish the capital to boot. The later comers, instead of having to pay a premium commensurate with the success of the business entered, make no contributions to capital requirements. The inequity of this situation is flagrantly evident.

Previous support and patronage of the Childress Cooperative have no bearing on present membership. The one and only way a cotton grower may become a member currently is by paying a one dollar membership fee. As a rule, cotton growers in the vicinity are not interested in membership unless they have cotton to gin. In years of crop failure, the membership may shrink severely. Furthermore, the membership fee is paid, almost universally, out of the dividends credited to the members at the end of the season. While 242 growers patronized the cooperative in 1934-35, only seven membership fees were paid in cash. As for the other patrons, the fees were carried over as a charge against their dividends the following season. Under equal equities, the greatest gain to members through liquidation would occur during years of a small membership. As a safeguard against members ever selling their gin plant, a resolution was passed at the annual meeting in January, 1930, forbidding sale except upon the vote of 95 per cent of the members.

No suggestion has ever been made that members of the Childress organization should receive equal portions of the profits distributed as cash dividends. The patronage basis has been followed without exception. Would it not be just as logical to establish equities of members according to the profits left in the business? In this way members would participate in the ownership of the capital according to the patronage producing the capital. The Rochdale Pioneers took a definite stand in the matter of the ownership of the capital of a cooperative. These cooperators were convinced of the urgency of workers establishing self-sufficient cooperative commonwealths. But as to the immediate objective in establishing their cooperative store, they realized that the sacrifices of poorly paid workers in making weekly contributions to the capital of the cooperative needed to be concretely rewarded in the form of shares of stock. This procedure recognized the costs in creating capital by rewarding the cooperators as individual holders of dividend paying stock.

Assigning of Equities

Under the present set-up of the Childress Society, the relations between the members and their association are not satisfactory. Too many of the cotton growers ginning with the cooperative are patrons rather than members—patrons who gin with the association only if they see the immediate prospects of receiving patronage dividends. Nor is "community" ownership satisfactory. Comparing such ownership with that of a church overlooks the fact that the cooperative gin is a business organization while the church is not. If members were assigned definite ownership in the assets of the association, this would undoubtedly result in a closer tie between the members and their cooperative. The procedure which might be followed in assigning equities leads into many complications.

Ideally the most equitable basis for assigning equities of members would be according to the exact profits absorbed from year to year in financing the investment in the association. The determination of such profits per member, for all practical purposes, is impossible. The other alternative to profits left in the business is the assigning of equities according to the patronage of the members, the number of bales ginned. Over the years the greatest contribution of a member to his cooperative is the patronage he furnishes. Without patronage there would be no profits, no business, no association. The question now arises as to the year or years to be used as the base in assigning the patronage equities. If the patronage over the whole life of the association were used equities covering 60 per cent of the investment would approximate 50 cents per bale. The great difficulty in this procedure, however, would be finding the former patrons who have moved away and the heirs of the former patrons who have died. Furthermore under this plan a large percentage of the equities would pass into the hands of individuals who are non-patrons at present. This would be most undesirable. Considering the association as a going concern, the patronage of the more recent years has had greater significance than that of the more remote years.

Another possibility would be to select certain years to be used in assigning patronage equities. Two plans of selected years as proposed by T. L. McFarland, former office manager of the Childress cooperative, are shown in Appendix C. In selecting years for assigning equities, no matter how sound the reasons may be, the issue is raised why certain years were selected rather than other years. The interest of an individual member would be to have the years selected in which his relative volume of the total was the largest.

It would seem desirable to relate the assigning of equities to a plan for rotating the capital. It would seem that about seven years would be the suitable period for revolving the capital. The assignment of equities might be based on the patronage the next seven years after a program to this effect were enacted. The equity per bale could not be designated until the end of the period. This long period of waiting

would be undesirable. Furthermore, this plan would place the whole premium on future patronage and would disregard the past patronage which has built the association.

Perhaps the most feasible plan would be to assign equities on the ginnings of the past seven years. If such a program had been adopted before the opening of the 1942-43 ginning season, equities would have been applied on the ginnings of the seasons 1935-36 to 1941-42. During this period, 48,221 bales were ginned. If about $60,000 had been assigned, the equity would have been $1.25 a bale. The certificates could be issued in seven series. Those of 1935-36 as Series 1, those of 1936-37 as Series 2, and so on. The member would get certificates of interest at the rate of $1.25 per bale for the volume in such seasons of the seven-year period as he patronized the cooperative. Table 10 indicates the totals of the certificates in each series.

Table 10. Assignment of Equities to Members (at $1.25 Per Bale) Childress Farmers' Cooperative Society

Year	Series	Bales Ginned	Equities Assigned
1935	1	8,965	$11,206
1936	2	2,458	3,073
1937	3	13,523	16,904
1938	4	6,069	7,586
1939	5	2,461	3,076
1940	6	5,023	6,279
1941	7	9,722	12,153
Total		48,221	$60,277

In rotating the capital every seven years, the next problem is to determine the rate needed per bale and the source of the funds to be used. Assuming the same average volume in the future as that of the past seven seasons, 60 per cent of the investment could be revolved in seven years at a rate of $1.25 a bale.

As the net profit per bale averaged $3.51 during the 15-year period, profits might be made the source of the fund applied in revolving the capital. It would be preferable, however, to discontinue profit financing and instead make a deduction, or retain, of $1.25 a bale. Thus the per bale funds would be available during loss years as well as during profit years. Under this arrangement, all net profits above the needs of the business would be available each year as patronage dividends. A new member would be assessed $1.25 a bale over a seven-year period. But he would receive in full all patronage dividends paid. During the eighth year, deductions would be made as usual, but he would be reimbursed for the deductions made the first year, and so on. A member retiring after a patronage of seven years, or more, would have his interest liquidated year by year during the following seven seasons.

Problem of Maintaining Membership in Short Crop Seasons

For the seasons 1930-31, 1934-35, 1936-37, and 1939-40, the Childress association suffered a total ginning loss of $30,600 on a total volume of 7,395 bales for the four seasons, or an average loss of $4.14 a bale. This was not the net loss on operations but the difference between the cost of operating the gin plant and the gin toll. On an average for the four seasons, the cooperative ginned 24 per cent of the county volume. On an average for the seasons preceding the short crops, the cooperative ginned 31 per cent of the county volume. Thus the cooperative suffered a slump of 7 per cent in relative volume in the short crop seasons. Suppose the drop in the ginnings of the cooperative expressed as percentages of county ginnings had been only one-half of what it was. Assuming the same relative efficiency of operations, the total loss on 8,563 bales would have been $26,164, or $3.06 a bale. Thus the total loss would have been reduced by 14 per cent. Suppose the ginnings of the cooperative expressed as percentages of county ginnings had been the same as those of the preceding seasons. Assuming the same relative efficiency of operations, the total loss on 9,730 bales would have been $21,725, or $2.23 a bale. Thus the total loss would have been reduced by 29 per cent. It should be clear that a considerable part of the losses suffered by the Childress society on the four short crop seasons was the result of the relative losses in patronage.

It would seem that the management of the Childress cooperative should consider what steps might be taken to lessen the drop in membership during the short crop seasons. As now operated during the loss years, profits on bagging and ties and cottonseed are applied as offsets to ginning losses. This seems especially severe on the larger patrons. Their greater volume makes a relatively greater contribution in reducing ginning losses; at the same time the greater profits furnished on bagging and ties and cottonseed are thrown in to lessen losses. It would seem that a reserve against ginning losses might well be created.[13] This reserve would be based on a per bale rate assessed against ginnings during the profit years. Losses on ginning (total gin toll less cost of operating gin plant) during the short crop years would be met from the reserve. Thus each ginning season, members would be certain of receiving patronage dividends on profits from bagging and ties and cottonseed. This certainty of patronage dividend should offer a real inducement to patronize the cooperative during the short crop seasons.

During the 15-year period 1927-28 to 1941-42, the Childress society suffered ginning losses during five seasons. These losses are listed in Table 11. A reserve assessed against the volumes of the profit years at a rate of 39 cents a bale would have offset these ginning losses. The additions to the reserve during the profit years and the deductions from the reserves during the loss years are shown in Table 11.

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[13] Paulson, Reserves Against Short-Season Losses. News for Farmer Cooperatives. April, 1941. pp. 5-6 and 31. Farm Credit Administration.

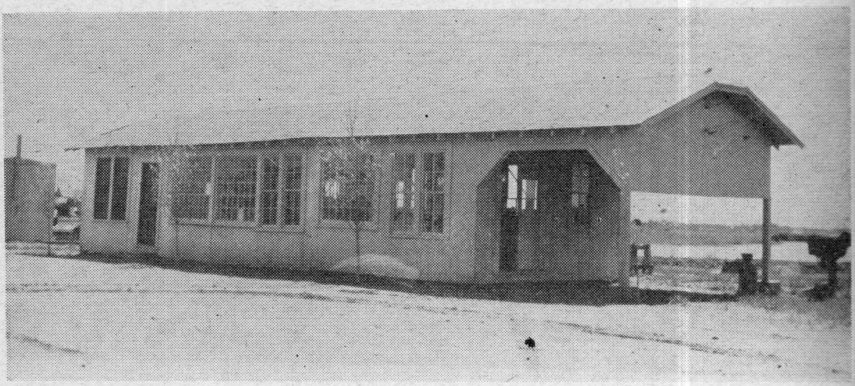

Figure 7. The Farmers' Cooperative Society of Childress is well equipped to do all necessary gin repairing. Machine shop.

Table 11. Reserves Accumulated During Profit Years to Offset Losses of Deficit Years
Childress Farmers' Cooperative Society

Year	Bales Ginned	Losses on Ginning			Reserves Accumulated		
		Actual	One-half Recovery	Full Recovery	Actual Volume at 39¢	One-half Recovery at 33¢	Full Recovery at 28¢
1927	9,013				$ 3,515	$ 2,974	$ 2,524
1928	5,133				5,517	4,668	3,961
1929	5,737				7,754	6,561	5,567
1930	1,198	$ 5,300	$ 3,277	$ 1,257	2,454	3,284	4,310
1931	8,049				5,593	5,940	6,564
1932	10,547				9,706	9,421	9,517
1933	10,871				13,946	13,008	12,561
1934	1,278	8,510	8,375	8,244	5,436	4,633	4,317
1935	8,965				8,932	7,591	6,827
1936	2,458	8,415	7,365	6,301	517	226	526
1937	13,523				5,791	4,689	4,312
1938	6,069				6,299	5,197	4,820
1939	2,461	8,375	7,147	5,923	−2,076	−1,950	−1,103
1940	5,023	1,588	1,588	1,588	−3,664	−3,538	−2,691
1941	9,722				128	− 330	31

Volume of one-half recovery: 1930, 1,569; 1934, 1,310; 1936, 2,820; 1939, 2,864.
Volume of full recovery: 1930, 1,940; 1934, 1,341; 1936, 3,183; 1939, 3,266.
Net ginning profit of 1938 was $508; this amount was added to the reserve that year.

It should be of interest to apply the reserve fund against the probable losses if the drop in the relative volumes of the Childress society had been only one-half (one-half recovery) or if the relative volumes had been the same (full recovery), as the relative volumes of the preceding years. Table 11 indicates the probable losses under one-half and full recovery of volume during the loss years. The additions to the reserves during the profit years and the deductions from the reserves during the loss years are indicated. The rates under one-half recovery and full recovery are 33 and 28 cents a bale on the volumes of the profit years.

The effects of a reserve against ginning losses on the dividends paid to members should be of interest. Table 12 indicates the dividends per bale as actually paid, and as they would have been under a reserve set-up with no change in volume and with one-half and full recovery in volume during the loss years. During all the profit years, the dividends

Table 12. Patronage Dividends Per Bale Childress Farmers' Cooperative Society

Year	As Paid	Under Reserve System		
		Actual Volume	One-half Recovery	Full Recovery
1927	$5.93	$5.54	$5.60	$5.65
1928	3.34	2.95	3.01	3.06
1929	4.93	4.54	4.60	4.65
1930	----	0.85	0.85	0.85
1931	1.51	1.66	1.72	1.77
1932	2.75	2.36	2.42	2.47
1933	4.47	4.08	4.14	4.19
1934	----	1.91	1.91	1.91
1935	3.67	3.96	4.02	4.07
1936	1.60	2.01	2.01	2.01
1937	3.25	3.41	3.47	3.52
1938	2.75	2.66	2.66	2.66
1939	1.00	1.53	1.53	1.53
1940	2.21	3.60	3.60	3.60
1941	3.90	3.67	3.73	3.78
Average	3.37	3.37	3.44	3.50

would be less by the per bale deductions made for the reserves. Dividends following each loss year would be greater in that losses of the preceding year would not be deducted in full from the succeeding profit year. During the seasons 1930-31 and 1934-35 when no dividends were paid, members would have obtained dividends of 85 cents and $1.91, the profits per bale on bagging and ties and cottonseed. In 1936-37, even though net losses were suffered, members were paid a dividend of $1.60 a bale. The profits on bagging and ties and cottonseed would have yielded a dividend of $2.01 a bale under the reserve system. Likewise for the loss season 1939-40 while a dividend of $1.00 a bale was paid, profits on bagging and ties and cottonseed would have yielded a dividend of $1.53 a bale.

Democratic Control

In the typical private corporation ownership of stock tends to concentrate in a few hands. By voting shares, these few stockholders dominate the policies of the corporation. The members of the board of directors usually own a substantial portion of the stock outstanding. Thus, the personal business interests of the board members are a significant factor in their conduct of the corporation. In this connection it should be of concern to notice, from the patronage standpoint, the relative importance of the directors of the Childress association. In the first place, these directors are chosen by the vote of the members. Each member has one vote, no more, regardless of the amount of his patronage. Table 13

Table 13. Volume of Ginning of Directors and Members Childress Farmers' Cooperative Society

Volume	Years									Average
	1933	1934	1935	1936	1937	1938	1939	1940	1941	
Average Bales Directors	65.7	6.0	34.7	14.0	48.6	25.0	17.1	28.9	67.8	34.2
Average Bales Members	17.6	5.3	16.6	6.7	22.4	17.4	9.1	15.9	31.7	16.7
Percentage Total Volume Ginned by Directors	4.3	3.3	2.7	4.0	2.5	2.9	4.9	4.0	4.9	3.6
Number Directors with Volume Less than Average Member	0	5	1	2	2	4	3	2	1	2.2

shows the average volume of ginning of the seven directors, the percentage their patronage was of the total volume, and the average volume ginned by the members.

During the nine-year period, the directors furnished from 2.5 to 4.9 per cent of the total patronage and an average of 3.6 per cent. The average patronage of the directors was slightly over twice as great as the average patronage of all members. In eight of the nine years, from one to five directors had a volume less than the average of all members. Under such circumstances, the interest of the directors are quite the same as those of the rank and file of the membership.

Contributions to Maintenance of Community

In this story of the Childress cooperative the emphasis has been placed on the benefits accruing to the members. The fact should not be overlooked, however, that this association operates a thriving successful business in the city of Childress. Somewhat of a picture of the importance of the association to the community, aside from that to the farmer members, may be gained from the data on taxes paid and on the payroll of salaries and wages. These data are shown in Table 14.

Table 14. Taxes Paid and Payroll Childress Farmers' Cooperative Society

Year	Taxes				Wages and Salaries
	State and County	City	School	Total	
1923	$281	$385	$220	$ 886	$ 7,547
1924	280	369	205	854	11,472
1925	239	378	216	833	10,832
1926	244	420	177	841	19,273
1927	228	592	283	1,103	17,849
1928	315	577	283	1,175	12,680
1929	338	510	283	1,131	12,510
1930	358	510	283	1,151	4,078
1931	360	567	283	1,210	9,074
1932	243	449	157	849	10,784
1933	300	450	155	905	12,869
1934	314	463	163	940	4,453
1935	273	463	163	899	12,473
1936	313	463	163	939	8,431
1937	356	609	301	1,266	16,279
1938	356	671	301	1,328	12,059
1939	420	671	301	1,392	7,923
1940	359	656	301	1,316	10,060
1941	341	656	336	1,333	17,498
Aver.	$311	$519	$241	$1,071	$11,481

The taxes paid make a sizable contribution towards the maintenance of state, county, and local institutions. Wages and salaries paid create purchasing power that is of considerable importance to merchants and service men doing business in Childress.

Summarizing

The record of the Childress organization is one scarcely duplicated by any other cooperative gin association in Texas. A very large volume of ginning, about average costs of operation, a satisfactory gin income per bale, and competent management have resulted in large profits viewed as returns either on the patronage or on the investment in fixed assets.

The wisdom of adding the second plant in 1936 may be questioned. The added plant has greatly increased the fixed costs which require a considerable increase in volume to make the same profit showing as with the original plant. Fixed costs of the Childress society are about $15,000 annually. About 3,000 bales are needed to "break even" with a gin income of $6.87 per bale, the average of the past five years. It seems that loyal members of not much over one-half the patrons equipped themselves with a very large gin unit the services of which may be sought, or not, by other cotton growers as they see fit. A smaller gin unit serving the loyal members might greatly reduce the risks and worries of the management and the loyal members.

An assignment of equities to members according to their ginnings over a period of seasons past and a maintenance of members' equities in the future according to a revolving fund plan of capital structure might greatly strengthen the tie between members and their association.

The Childress association has been operating an almost exclusive ginning business. The management is beginning to feel the desirability, if not the necessity, of expanding the scope of the services furnished members even though some of the services may not add to the net profits of the business. Year round contact may prove most valuable in maintaining patronage during the ginning season.

Danevang Farmers' Cooperative Society

The Danevang Farmers' Cooperative Society is unique among cooperative associations in Texas. The members of one nationality, until recently, form a solid and complete community. The development of the community from the very beginning represented group action through the sponsorship of the DANSK FOLKESAMFUNDS I AMERIKA. This organization was engaged in stimulating Danish settlements in many parts of the United States.

Danevang was settled by Danes who had migrated, in great part, from Denmark to the Middle West in the 1880's. The lure of Texas was the opportunity of purchasing a large tract of land at a price considerably below that prevailing in the Middle West. The purpose in forming the

settlement was to develop a successful agricultural community in which the Danish culture and language and the Lutheran Church might be preserved.

The settlement was begun in 1894.[14] The experience of the settlers the first five or six years were excruciating. These Danes with their background of farming in Denmark and the Middle West came to Texas with every intention of carrying on a type of agriculture based on grain crops and livestock. Even the thought of raising cotton was abhorrent. With a small measure of conceit, these settlers were going to show Texas farmers how farming should be done. Very speedily, the Danes had to ask the Texas farmers to show them how to raise cotton. Sufficient cotton was produced by 1897 to warrant the building of a cotton gin in the community. Cotton acreage first gained significance in 1900. But the entire crop of that season was utterly destroyed by the "Galveston Storm."

The failure of Middle West agriculture, the difficulty of adjusting to cotton production, the loss of 70 horses from Charbon during 1898, and finally the storm disaster of 1900 were obstacles almost beyond the power of these sturdy pioneering Danes to surmount. The decision was reached to abandon the settlement. But to pull stakes and leave were found not easy to do. All the savings of these people was invested in the settlement. In abandoning the colony, nothing of value could be salvaged. Without resources, these people had nothing with which to finance the cost of moving to some other territory. The land company from which the tract of land had been purchased, expressed confidence that success could still be attained. This faith was supported by a proposal to give the settlers more time in paying for their land. After the whole situation had been carefully surveyed, there seemed but one choice—to remain and continue every possible effort to overcome the handicaps that, thus far, had proved so formidable. From 1901 onward, success smiled on the efforts of the settlers of Danevang.

The manner in which Danevang was first developed and the hardships of the early years, fostered among the settlers a profound sense of mutual dependence and a clear-cut understanding that cooperative enterprise is the open door to the best the community has to offer. The spirit of cooperation developed early and enmeshed the whole community.

The first formal business cooperative started was the Danish Mutual Insurance Company, organized in 1897 and incorporated in 1901. In this company the members share the risks of fire hazards to their buildings and personal properties. This company has operated most successfully up to the present day. Over a period of more than 40 years, the annual net cost of the insurance to members has been at the rate of about six cents per $100 of insured property. The second cooperative enterprise was the telephone company organized to serve the community. This company was started in 1913 but it was not incorporated until 1936.

[14] Petersen, P. J. Danevang, Wharton County, Texas. Danske i Amerika, 1918. pp. 421-438. C. Rasmussen Company, Minneapolis.

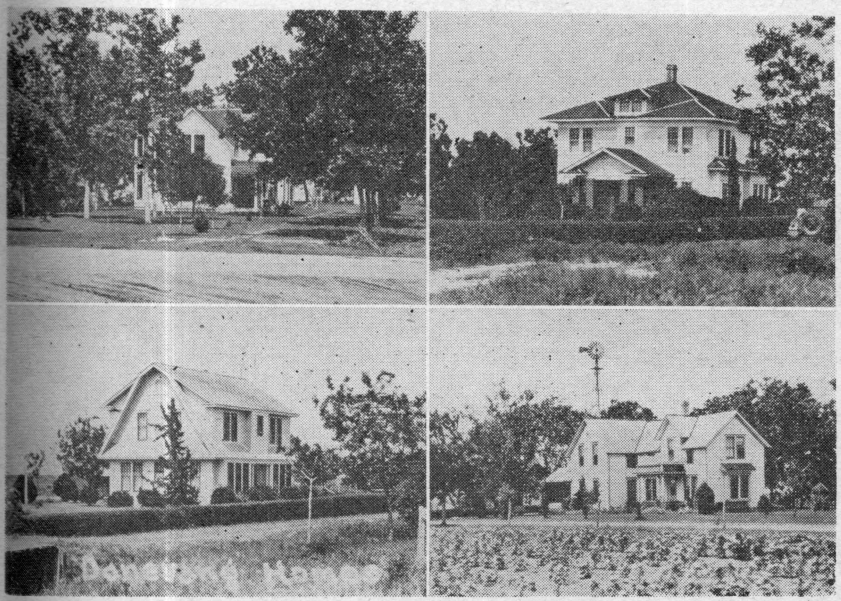

Figure 8. What cotton, cooperation, thrift, and industry have accomplished. Danevang homes.

Cooperative Organized in 1920

The Danevang Farmers' Cooperative Society was organized in 1920 and incorporated February 2, 1921. The purposes for which this association was created are broad enough to include every kind of business relating to the marketing and processing of farm commodities and the purchasing of products and supplies needed by the members. Regarding the origin of the Danevang society, Peter Harton makes this statement in a personal letter: "The immediate impetus to this organization was the high war-time ginning charges adhered to by ginners in this and nearby territories, in spite of the recent drastic drop in cotton prices. A three-acre tract for a gin was bought ($900) immediately and this investment served as an anchor to hold the coop. ship steady during the first few years." The minutes of the meetings of the board of directors and of the members from the pre-organization date of August 1, 1920, up to the present are available. These minutes are a revelation of the thinking and action of the Danevang group.

The early years of the Danevang cooperative were a time of preparation—preparation for an expanding program which has been slowly and methodically unfolding. Every proposal, no matter how promising and alluring, has been subjected to critical consideration and investigation. The enthusiasm of the first-blossoming of an idea has never spurred these members into hasty ill-advised action. The members have never

left important decisions to be made by leaders, chosen or self-appointed. Questions of moment are always settled in membership meetings. The deciding vote invariably follows free, open, and full discussion. In many instances years have passed before a proposed enterprise has been actually put into operation.

The advisability of starting a cooperative grocery store was thoroughly investigated in 1922. The cooperative grocery store came in for frequent consideration thereafter. A grocery department was installed November 1, 1939. The handling of kerosene, gasoline, and lubricating oil was proposed in 1924. The installation of a filling station was discussed in the board meeting of April 3, 1926. All the directors were in favor provided "satisfactory arrangements could be made." The minutes of the following board meeting recorded: "Satisfactory arrangements could not be made on the gasoline station." A filling station became an actuality in 1932. The possibilities of a cooperative creamery were discussed in 1922. But nothing developed out of this proposal. Handling of farm implements, in a small way, was started in 1923.

From the very beginning the Danevang association handled feed. The first form of the business was to assemble orders from the members. In 1922 arrangements were made with a feed dealer in El Campo allowing members a rebate of 8 per cent on feed purchased for cash. In July 1923, the proposal was advanced to build a small warehouse to facilitate the feed business. This feed warehouse became the main topic of discussion in many of the board and membership meetings which followed. One may raise the question whether this $600 warehouse was worth all the time and effort spent on the part of members and officials. But at least this enterprise was developed the democratic way and the technique of the procedure followed became especially valuable later when enterprises of greater importance had to be developed. The hauling of materials and the labor needed in the construction of the building were pro-rated among the members. The minutes of the board meeting of October 8, 1924, refer to a new member as having been "unanimously elected to membership, and his entrance costs were fixed at $15 cash and 1½ days' work on the warehouse building." The annual meeting on January 14, 1925, was held in the new warehouse.

A general impression of the amount of business transacted during the period 1921-1926 may be gained from Table 15. The upward trend in the amount of business done is quite marked. Included in the business was the total of ginning charges members paid the local ginners on which a rebate of 5 per cent was obtained. During the six-year period the members sold but a small part of their cottonseed to the ginners. For a number of years the cooperative helped members in an informal manner to sell their cottonseed. An example of how members were aided in selling their cottonseed is reported by Peter Harton. "In 1924 (Dec.) the D. F. Co-op shipped three carloads of seed to a Houston oil mill, thereby proving to the nearby oil mill that we were not forced to accept their lower price. Since then the oil mill (nearby) has offered

Table 15. Profits and Costs of Merchandise and Services Danevang Farmers' Cooperative Society

Year	Number of Members	Profits				Cost of Merchandise and Services[1]	
		Total	To Surplus	Dividends			
				Total	Per Member	Total	Per Member
1921	61	$ 236	$ 47	$ 188	$ 3.08	$ 4,700	$ 77
1922	62	704	141	563	9.08	13,000	210
1923	69	721	144	577	8.36	12,500	181
1924	70	1,199	240	959	13.70	23,980	343
1925	71	1,582	316	1,266	17.83	39,932	438
1926	74	1,911	382	1,529	20.66	48,541	656

[1]Seasons of 1921 and 1924 estimated.

top price and been getting our seed." But in 1926, members sold their cottonseed through their cooperative. This added $10,867 to the volume of business. In 1926, the various items furnished the following percentages of the total volume of business: feed, 31; cottonseed, 22; ginning service, 20; implements, tractors, etc., 12; cotton poison, 7; and all other, 8.

It is to be noted that 20 per cent of the net profits each year was left in the business. A reserve of $1,270 was accumulated in this manner. Regarding the financing program of the early years, Peter Harton states: "This practice (20% Reserve) was continued for 6 years, or until we built our own gin (1927), increased our Working Capital to $65 per member and commenced to borrow money for operating and other purposes on a larger scale. However, it should be noted, that from the very beginning each member has been credited with his actual profits on the business furnished by him and a statement was annually furnished to each member showing how much he had in the reserve fund. This fund furnished operating capital, went into stocks of merchandise carried, etc. To finance real estate (lot, building and improvements on same) we used our membership fund and levied annually an assessment (equal) on each member and in this way gradually paid off loans made for such purposes. The value of each share of Working Capital increased thus from year to year and a new member had to furnish an equivalent share of Working Capital in order to be accepted. In short: the equity of each member has been kept readily ascertainable at all times, and where a membership was ended (by death or withdrawal) the full share of his contribution was computed and paid out."

Preliminaries to the Building of a Gin Plant

One of the earliest problems considered by the Danevang organization was the providing of ginning facilities. The local gin was operated by two Danes of the community. This fact colored the early attitude towards a cooperative gin. As the first step in developing a gin program two plans were examined: the purchasing of the local gin; and the leasing of the local gin. The members rejected both proposals. Several

weeks later, an agreement was entered into with the local ginners; this agreement continued substantially unchanged for six years. According to the minutes of a called membership meeting of February 9, 1921, the agreement of the ginners read as follows: "We hereby agree to gin your cotton and if possible give satisfatory service at the same price as other gins charge in this vicinity (El Campo, Bay City, Markham, Louise). We will give a 5% discount on all cotton ginned. Provided we receive cash in hand not later than Saturday evening of each week. There shall be formed a grievance committee consisting of one man selected by the ginners, one man selected by the D. F. C. S., and a third man selected by these two. This committee shall act as a tribunal in all controversies arising between the ginners and members of the society."

Further interest in a cooperative gin developed in 1923. A secondhand plant in Bay City was offered for sale. A special committee of directors and members was appointed to investigate. The machinery was found unsatisfactory. A little later a secondhand plant in Palacios was offered for sale. This gin too was found unsatisfactory.

The directors in a meeting of December 17, 1924, "decided to sound the entire membership at the general meeting in regard to building a gin." At the general meeting of January 14, 1925, "The question of building a new gin was introduced but did not receive much interest from members . . ." Not until early in 1927 was the situation propitious for building a gin. At a general meeting, February 5, 1927, a motion was made "to see how many were in favor of building a cooperative gin provided the money could be raised." Forty or more members voted for the motion and none against. At a general meeting nine days later, a motion was made "to see how many would raise $300 as a loan for building a new gin (or less if not that much needed)." On a roll call vote, 53 members voted for the motion; eight against; and 18 did not commit themselves. The program for financing the gin plant is discussed in a later section.

Success of Ginning Operations

The success of ginning operations of the Danevang cooperative has been most outstanding. In the 15-year period, 1927-28 to 1941-42, a total of 53,880 bales was ginned, or an average of 3,592 per season. Profits of the ginning business totaled $155,390, or at the rate of $2.88 per bale. These profits yielded an average return of 27 per cent on the investment. For the whole period, the gin income per bale averaged $5.37. At the standard gin income of $6.40 per bale the profit would have been $3.91 per bale and the return on the investment would have been 37 per cent. At the same gin income per bale as the Childress Farmers' Cooperative Society obtained during the same period, the profit would have been $4.95 per bale and the return on the investment would have been 47 per cent.

Detailed records on the seasons 1927-28 and 1928-29 are lacking. For many years the business records of the Danevang society have been

very poorly kept. Until recently these records were not audited. For a number of years officials had felt that an annual audit was urgently needed. Happily, with the decision to have the records audited an acceptable system of records was installed. The records of operations the past three seasons have been kept and audited in a most satisfactory manner.

Cost of Ginning Service to Members

First money costs and out-of-pocket costs per bale to members over the 13-year period 1929-30 to 1941-42 are summarized in Table 16. It

Table 16. First Money Costs, Profits, and Out-of-Pocket Costs of Ginning to Members Danevang Farmers' Cooperative Society (Per Bale)

Year	First Money Cost				Net Profits	Out-of-Pocket Costs	
	Gin Toll	Per Pattern B. & T.	Total	Relative Average 100.0		Net	Percentage of First Money Cost
1929	$5.12	$1.50	$6.62	127.8	$0.91	$5.71	86.3
1930	4.36	1.25	5.61	108.3	3.49	2.12	37.8
1931	2.92	1.25	4.17	80.5	2.02	2.15	51.6
1932	3.46	1.00	4.46	86.1	1.98	2.48	55.6
1933	4.64	1.00	5.64	108.9	3.43	2.21	39.2
1934	5.02	1.00	6.02	116.2	2.71	3.31	55.0
1935	4.15	1.00	5.15	99.4	2.73	2.42	47.0
1936	4.13	1.25	5.38	103.9	1.33	4.05	75.3
1937	3.46	1.25	4.71	90.9	3.27	1.44	30.6
1938	4.58	1.25	5.83	112.5	3.22	2.61	44.8
1939	3.81	1.25	5.06	97.7	2.50	2.56	50.6
1940	3.47	1.50	4.97	95.9	3.01	1.96	39.4
1941	4.48	1.75	6.23	120.3	2.85	3.38	54.3
Average	3.91	1.27	5.18	100.0	2.75	2.43	46.9

would appear that the average gin toll paid by members was about 27 cents per cwt. of seed cotton. Even though the gin tolls have been considerably below the average for the Gulf Coast Area the out-of-pocket cost has averaged but 47 per cent of the first money cost. There has been a slight upward trend in the first money cost to members. The weighted average was $5.04 per bale for the period 1929-30 to 1933-34; $5.11 per bale for the period 1934-35 to 1937-38; and $5.36 per bale for the period 1938-39 to 1941-42. For the 13-year period out of every dollar of first money cost, members have paid 75 cents for gin tolls and 25 cents for bagging and ties.

Costs of ginning and of bagging and ties per bale and profits on ginning, bagging and ties, and cottonseed per bale are summarized in Table 17. Over the 13-year period out of every dollar of net cost of ginning service, members paid 74 cents to cover the cost of operating the gin plant and 26 cents to cover the cost of bagging and ties. The sources of each dollar of net profit were: 51 cents from ginning; 15 cents from bagging and ties; and 34 cents from cottonseed.

A ginning cost of $1.77 per bale for the season 1937-38 was the lowest

Table 17. Costs and Profits of Operations (Per Bale) Danevang Farmers' Cooperative Society

Year	Costs			Profits				Bales Ginned
	Ginning		B. & T.	Ginning	B. & T.	C/S	Total	
	Standard[1]	Actual						
1929	$5.88	$5.03	$1.05	$0.09	$0.45	$0.37	$0.37	1,246
1930	2.64	2.47	0.86	1.89	0.39	1.21	3.49	4,138
1931	2.33	1.98	0.75	0.94	0.50	0.58	2.02	5,323
1932	3.08	2.14	0.73	1.32	0.27	0.39	1.98	3,171
1933	2.89	1.87	0.66	2.77	0.34	0.32	3.43	3,548
1934	4.66	3.70	0.74	1.32	0.26	1.13	2.71	1,720
1935	3.47	2.80	0.81	1.35	0.19	1.19	2.73	2,653
1936	5.38	4.15	0.96	0.02	0.29	1.06	1.33	1,491
1937	2.42	1.77	0.84	1.69	0.41	1.17	3.27	5,198
1938	3.09	2.84	0.97	1.74	0.28	1.20	3.22	3,334
1939	2.71	2.56	0.92	1.25	0.33	0.92	2.50	4,484
1940	2.17	1.92	0.98	1.55	0.52	0.94	3.01	7,147
1941	3.52	3.78	1.07	0.70	0.68	1.47	2.85	2,965
Average	$2.95	$2.49	$0.87	$1.42	$0.40	$0.93	$2.75	3,571

[1]Estimated Costs according to the equation: Cost = $2689 + $0.0910I + $1.22V.

for the whole period; the volume that season was 5,198 bales. A ginning cost of $5.03 per bale for the season 1929-30 was the highest for the whole period; the volume that season was 1,248 bales. Over the 13-year period the average cost was 16 per cent below the standard cost.

Supply Business

This Bulletin is chiefly concerned with the business of ginning. But a large percentage of the cooperative gin associations of Texas must make the decision whether or not to enter the supply business. Many advantages may arise from a diversified business. An opportunity is afforded of serving members the year round rather than only during the ginning season. Savings on the supply business may add materially to the advantages of operating a cooperative gin.

The Danevang society reversed the usual procedure as the ginning business was added to a supply business rather than the other way round. Items of the supply business expressed as volumes per member are summarized in Table 18. Note that the average value of the business per member for the period 1925-1941 was $447. The average cash dividend was $29. The dividend as a rate on the cost of the merchandise was 6.6 per cent. But savings may be other than on the operating margin. As for products like tractors, radios, and refrigerators, the savings may be effected in the lowered purchase price. Savings of this type are summarized in Table 19. On an average these savings amount to $13 per member annually. These savings are quite as real as those represented in the cash dividend. These savings added to the cash dividend made a total of $43 per member annually. These savings are equivalent to 9.5 per cent on the average purchase of $447. If farmers through their own cooperative organization can stretch their purchasing power by 9.5 per cent, the effort should be worth while. Furthermore,

Table 18. Supply Business Per Member Danevang Farmers' Cooperative Society

Year	Feed	Paint	Gasoline, Oil, Tires, Etc.	Poison	Hardware and Implements	Miscellaneous	Total Supplies	Cash Div.
1925	$161.77	$ 19.49	$------	$ 32.24	$ 49.29	$ 26.21	$289.00	$ 10.92
1926	207.65	15.38	------	51.42	79.03	24.68	378.16	14.07
1927	128.01	8.80	30.49	39.60	138.38	10.88	356.16	15.42
1928	128.13	11.25	45.05	31.95	390.85	25.73	632.96	9.67
1929	121.38	16.42	67.18	50.35	83.11	21.54	359.98	2.48
1930	139.77	6.36	75.15	60.27	14.78	12.30	308.63	10.45
1931	54.47	5.56	70.05	25.05	11.80	8.19	175.12	9.97
1932	27.65	3.76	92.03	12.65	16.99	13.58	166.66	8.90
1933	33.50	10.24	140.03	8.46	36.02	11.19	239.44	15.78
1934	49.17	12.25	153.52	17.27	116.06	11.67	359.94	31.90
1935	51.12	11.36	164.69	70.53	277.74	7.70	583.14	53.47
1936	59.39	7.45	153.73	158.31	144.45	37.20	560.53	45.01
1937	79.29	9.96	170.19	42.77	141.38	64.20	507.79	43.07
1938	23.41	8.32	214.36	49.07	168.31	49.55	513.02	42.23
1939	4.03	9.08	229.11	34.93	261.53	58.68	593.36	48.09
1940	28.27	15.68	212.32	18.11	244.69	88.25	607.32	44.08
1941	3.42	9.34	204.10	39.31	235.19	74.13	565.49	36.35
Average	$ 63.25	$ 10.35	$138.27	$ 44.29	$152.82	$ 37.60	$446.58	$ 29.40

Table 19. Savings in the Purchase Price of Products Bought by Members of the Danevang Farmers' Cooperative Society

No. of Items	Kind of Product	Savings	
		Per Unit	Total
60	Kerosene Refrigerators	$100	$ 6,000
40	Radios	15	600
70	Tractors	112	7,840
16	Tractors	350	5,600
Total Savings			$20,040

it seems reasonable to assume that many less refrigerators, radios, and tractors would have been bought by Danevang farmers at the full retail price than at the reduced wholesale price.

A cooperative on the alert may capitalize on many opportunities to serve its members. Several years ago the Danevang cooperative installed a repair service as a branch of the supply department. Farm machinery, trucks, tractors, and automobiles are the main items repaired. The repair work on the gin plant is also taken care of. Rates charged are in line with those of garages and repair shops at neighboring points. Repair parts are obtained at cost by the supply department. The main interest of the members is not so much in the cost of the service as in the convenience of obtaining repair work near home rather than 10 or 12 miles away. During the years 1939, 1940, and 1941, the gross incomes of the repair section were $4,700, $5,200, and $5,700.

Financing Program

From the standpoint of the association, the Danevang organization was, and is being, financed with the profits earned in the various departments. Hence the gin profits shown as returns on the investment in the fixed assets of the gin plant as in Table 20 should be of interest.

Table 20. Returns on the Capital Invested in Fixed Assets Danevang Farmers' Cooperative Society

Year	Cost of Fixed Assets	Net Profits	Returns on Investment	Investment Per Bale Ginned
1929	$34,221	$ 558	1.6%	$ 27.46
1930	35,225	13,497	38.3	8.51
1931	35,225	10,029	28.5	6.62
1932	35,225	6,332	18.0	11.11
1933	35,423	12,293	34.7	9.98
1934	35,488	4,973	14.0	20.63
1935	35,930	7,724	21.5	13.54
1936	38,548	2,568	6.7	25.85
1937	38,837	17,661	45.5	7.47
1938	38,837	11,311	29.1	11.65
1939	43,671	11,806	27.0	9.74
1940	45,248	21,520	47.6	6.33
1941	45,568	7,266	16.0	15.36
Average	38,263	9,811	25.6	10.71

The return of 2 per cent in 1929 was the low and the return of 46 per cent in 1937 was the high; the average for the period 1929 to 1941 was 26 per cent. The sources of funds of the gin department and the disposition of those funds should be of concern. Table 21 itemizes the

Table 21. Analysis of Funds Danevang Farmers' Cooperative Society Seasons 1927-28 to 1941-42

		Dollars	Percentage of Total
Sources of Funds:			
Net Profits after Depreciation		155,396	81.0
Provision for Depreciation (not involving cash)		33,572	17.5
Increase in Capital Contribution		2,184	1.1
Notes for Capital Contribution Paid		690	0.4
Total		191,842	100.0
Disposition of Funds:			
To Increase Permanent Assets		16,904	8.8
To Pay Off Mortgage		19,972	10.4
To Increase Working Capital		1,397	0.7
Investments		169	0.1
Prepaid Expenses (Insurance)		386	0.2
Adjustment of Profits	5,053		
Write Off Depreciation Reserve from Revaluation	7,197	12,250	6.4
Total Used in Operations		51,078	26.6
Paid as Cash Dividends		140,764	73.4
Total		191,842	100.0

funds as to sources and disposition. Of the total net profit over the 15-year period, more than 90 per cent has been distributed to the members as cash dividends. Profits left in the business to finance the gin investment have absorbed five cents out of each dollar of first money cost paid by members for ginning service.

The financing of the Danevang organization has followed a pattern distinctly different from that of any other cooperative in Texas. The manner in which the gin plant was financed in 1927 gives a clue to the procedure which has been followed since. The secretary's report summarized the financing program of 1927 as follows:

Number of members, 84		
Membership fees paid in	$ 840.00	
Working capital (cash)	4,780.28	$65.00 per member
Working capital (notes)	696.09	
Loans made to Society by members	16,942.36	Due on or before 10 years
Loans made to Society by members	3,450.00	Due on or before 3 years

Loan of $16,942.36 made by 54 members
Loan of 3,450.00 made by 16 members
30 members made neither loan

Loans From Non-Members

		Paid
——— (due on or before 3 years)	$ 100.00	6-13-27
——— First National Bank (6 mo.)	5,000.00	6-14-27
——— (5 years)	1,000.00	6-28-27
Danish Mutual Insurance Co. (10 years)	2,000.00	5- 8-29

All the members paid the membership fee of $10. This became the permanent property of the Society and was assigned to the "Educational Fund." In addition, each member was required to subscribe $65 (later raised to $100) in "Working Capital." The surplus left in the business during the period 1921-1926 furnished $1,270 of the "Working Capital." At the time the gin was built, 87 per cent of the "Working Capital" had been paid in cash either directly or through profits left in the business. Of the fund in the "Working Capital," however, $2,500 was assigned to the gin business and the remainder to the supply business.

Of the $34,112.64 raised in cash to finance the gin plant, members furnished $26,012.64, or 76 per cent. Of the $8,100 raised from outside sources, $6,100 was repaid by August 1, 1927. The $2,000 borrowed from outside sources and not repaid until two years later was obtained from the Danish Mutual Insurance Company, a cooperative belonging to the members of the Danevang society. The association borrowed an average of $530 from 16 of the members on the ten- and three-year notes and an average of $314 from 38 members on the ten-year notes. It should be clear that as of August 1, 1927, members furnished directly, or indirectly, 100 per cent of the funds required to build the gin plant.

At the end of two years all the notes of the association in favor of the members were liquidated with funds derived from the profits of the

ginning business. At the annual membership meeting of January 25, 1929, an important decision which has controlled the financing procedure followed thereafter, was made by the members. The minutes of this meeting record: "After discussing the gin business of the past two years, three plans numbered 1, 2, and 3 having been outlined by the directors, was read by the secretary. Plan No. 1 being recommended as the most favorable of the three, it being as follows: total cost of gin fixtures and property $33,328.89—appraised value of 25% less, present value $24,997.42. Stock on hand $472.30, cash in Bank $3,806.15 making a total value of $29,275.87 this being divided at the rate of $2.50 per bale on 7,462 bales totalling $18,655. The seed being divided at the rate of $3.75 per ton on 4,721,025 lbs., making a total of $8,851.87. The two totals added together equal $27,506.87 which is to be divided equally to each member in proportion to the number of bales ginned and quantity of seed left at the gin. After issuing notes for the said amount there being a total of $1,679 left for the beginning of a new period. This plan was carried by a unanimous vote . . ."

"Gin Notes"

The notes issued to the members in the annual meeting of 1929 are usually referred to as "gin notes." Several features of the "gin notes" need explanation. At the beginning members lent 87 per cent of the funds needed to build the gin plant. It would seem that this act of the members in lending funds was viewed as a special favor to the association, a favor which the association had to reciprocate later. As soon as the loans of the members had been liquidated from the profits of the ginning business, the association was under obligation to mortgage its assets almost to their full value in notes issued to the members in accordance with the patronage of the first two years, these notes in turn to be liquidated from the profits of the ginning business through the second cycle of operations. This relation between the member and his association seems to create a conflict of interest. The interest of the member is unduly recognized to the detriment of the interest of the association. At the time the "gin notes" were first issued, and at each re-issue thereafter, the association loses most of its credit standing in that its assets other than "Working Capital" are mortgaged almost to their full value.

Under a program of "gin notes" patronage dividends are never paid on current ginnings. The profits of 1927 and 1928 paid for the gin plant. These two seasons constituted the first cycle. The "gin notes" issued at the close of the 1928 season became the first claim on the profits of the subsequent seasons until paid in full. These following seasons became the second cycle. At the end of the second cycle the gin plant was re-appraised and "gin notes" issued to members based on the patronage of this period. These "gin notes" then became a first claim on the profits of the third cycle, and so on.

At the beginning of a cycle when the "gin notes" are issued a revolving fund plan of financing would seem to be put into operation. But this is not so. In the first place, the members as the holders of notes against their gin association do not stand in the relationship of owners of the assets of their association; instead they are creditors; their association is indebted to them. In the second place, as the profit of the patronage of members is applied against the "gin notes," the members are not given an assignment of equity corresponding to the profit furnished. Instead as the notes are paid off the net worth of the association increases by like amount. In the balance sheet this net worth is designated as undivided profits. This, however, is not undivided profits in the usual sense. In reality profits are not being left in the business. The profits are used to retire the notes. What happens is that an unencumbered and unassigned equity of the members comes into being which becomes the basis for the "gin notes" issued on current business to be repaid from profits of the subsequent cycle.

Finally, the issue must be raised as to advantages and disadvantages of "gin notes" as against the various forms of certificates available in the financing of non-stock cooperatives. Clearly the Danevang group wishes to bring patronage into the financial plan. Whatever is accomplished in reaching this end by the use of "gin notes" may be accomplished fully as well with some form of certificate. While the certificate enjoys all the advantages possessed by the "gin notes," it is free from the serious objections of the "gin notes." "Gin note" financing while tied into the patronage dividend policy also affects the whole financing pattern. For instance, the balance sheet of the Danevang cooperative as of December 31, 1941, showed that the hardware department had notes to members outstanding to an amount of $12,100 and the grocery department to an amount of $8,400. This represented funds which had been borrowed from the members to carry on the business and which were entirely independent from "gin notes." On this total of $20,500 the association was paying interest at the rate of 6 per cent. This is a profitable arrangement to the fortunate members who have money to lend to their cooperative but expensive financing to the unfortunate members who have no money to lend. This money could be borrowed from the Houston Bank for Cooperatives at the rate of 2½ per cent. But under the present financing plan of the Danevang cooperative, the Houston Bank for Cooperatives cannot possibly extend credit. A cooperative which may have a net worth of $40,000 today but which may have a net worth greatly depleted tomorrow because its assets have been mortgaged to the members in the form of "gin, hardware, and grocery notes" cannot qualify as a good bank risk no matter how successful its business operations may have been.

There is evidence that the "gin note" has been questioned in recent years. The minutes of the board meeting of February 9, 1940, contain this entry: "Motion of_____and seconded by_____ to investigate 2½% loan of the Houston Bank for Cooperatives, and to

issue earning certificates to members in place of notes if that became necessary and advisable to secure loan. Carried." The minutes of the board meeting of March 1, 1940, contain this entry: "Loan from Houston Cooperative Bank discussed. Motion to table application for this loan on account of the requirement from the Houston Cooperative Bank to obtain such a loan in conflict with our present rules of distribution of profits as in Article 5. Par. 2. Motion carried unanimously." At the annual meeting of January 24, 1941, members "discussed whether cooperative should issue promissory notes or earning certificates for distribution; motion for promissory notes carried."

Substituting Certificates for "Gin Notes"

The Danevang association has much to gain by adopting the certificate form as a substitute for the "gin note." The certificate could yield the same rate of return as the note; it would be as salable as the note by members who cannot hold until maturity. The members would be in the status of owners of the assets of their association as holders of certificates rather than in the status of creditors as holders of "gin notes." Under the certificate plan the net worth of the association would not be wiped out periodically, in great part, as is the case with the re-issue of "gin notes" at the beginning of each successive financing cycle. With the certificate the association, so far as its financing program is concerned, would be eligible to make loans from the Houston Bank for Cooperatives.

It would seem desirable to substitute certificates for the member's investment of $100 to the "Working Capital." In that this capital requirement is the same for members with a small volume of business as for members with a large volume of business, the principle of contribution to capital according to patronage is violated.

The certificate form of ownership facilitates a revolving fund plan of financing. In a financing program of this kind, current contributions to capital should be based on a definite retain per bale rather than on the total net profit. In revolving all the profit, the cycle would become unduly short. If a period of about seven years were adopted, an assignment of equities at the rate of one dollar per bale on the volume of ginning the past seven years would approximate 60 per cent of the cost of the fixed assets in the gin plant. If the volume in future averages about the same as in the past, a retain of one dollar a bale would turn 60 per cent of the fixed assets about every seven years. The retain of one dollar a bale could be assessed at the time of ginning as an added charge or it could be assessed against the returns from the sale of cottonseed. Under this plan all the net profit of the gin department other than that needed for reserves, for operations, and the like, would be available currently as cash patronage dividends.

First and Second Generation Members

An interesting development in the Danevang society is what is usually referred to as the contest between the "old men" and the "young men." In general this was a conflict between members of the first generation and members of the second generation. This rivalry came to a head in the early 1930's. The cause of the second generation was aided materially by some of the outstanding leaders among the first generation. Rather speedily the victory went to the "young men." With the victory, in large part, went the leadership in official capacity. The average age of the seven members and the alternate of the board of directors of 1942 was 43 years. Three of these members were in their 30's; two were in their 40's; and three were 50, or older.

In the Danevang cooperative, control has very wisely been passed on to the younger men while the older men were still in a position to give advice and counsel out of their richer experiences. Thus the situation, all too common, has been avoided in which the leaders of the first generation stay in control until the very end of their lives and then all of a sudden control must be passed on to the younger men who are totally untrained and who, too late, cannot then profit by the advice of the men who fought the battles of the early years of the cooperative.

Question of Eligibility of Members

The success of the Danevang cooperative made membership very attractive There is evidence that cotton growers outside the community clamored for the right to become members. The minutes of the annual membership meeting of January 25, 1929, contain this entry: "After considerable discussion as to where the line should be in taking in new members it was left to the Board of Directors to agree upon . . ." For a number of years members were accepted only from the "community" which meant from within the boundary of the Danish settlement.

The question of defining the qualification of members entered into the contest between the "old men" and the "young men." The older members were more inclined to be ruled by the purposes for which the community was originally started. Thus the cooperative should be operated exclusively for the Danish farmers of the community. One argument advanced was that if outsiders were admitted to membership the increased volume of ginning would quickly wear out the gin machinery. The younger men with a keener eye to the business principles involved maintained that the increased volume of ginning would so reduce costs of ginning that the worn out machinery could be replaced from the added profit with profit to spare.

Another question arose, which a first thought would seem to have no bearing on membership, that of providing a second gin plant. The Danevang society ginned 4,138 bales in 1930. As is the case almost without exception with cooperative gins, after the first season of heavy volume, an agitation was started to build a second gin plant. This

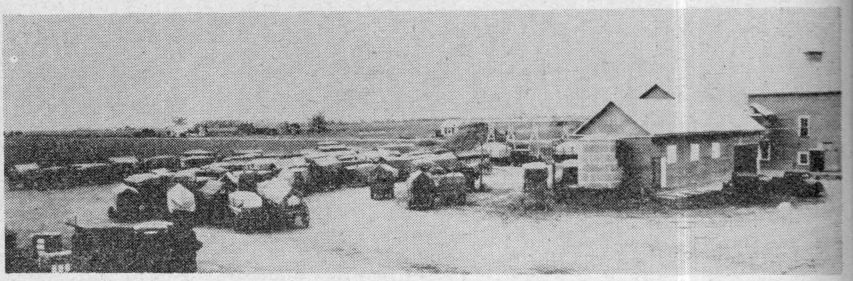

Figure 9. During the rush of the ginning season the Danevang Farmers' Cooperative Society operates on a 24 hour day.

matter was discussed at the annual membership meeting of January 23, 1931. To the credit of the Danevang members on a motion to build a second plant only eight votes were cast in favor and more than 50 against. In 1931, 5,323 bales were ginned. This tended to keep alive the interest in a second gin plant. In 1933 a group of Bohemian farmers at Midfield, nine miles south of Danevang, organized a cooperative gin association. The volume of ginning the next four seasons was so low that the association faced bankruptcy. This gin plant was offered to the Danevang cooperative in 1937 at a bargain price. This proved the opportunity of acquiring the second plant. But what action to be taken regarding the patronage of the Bohemian farmers in the vicinity became a persistent question. Should these farmers be taken into full membership? The settling of this crucial question was delayed for several years. In the meantime the Danevang association accepted the patronage of these outsiders. The cost of operating the Midfield plant was averaged with the cost of operating the Danevang plant. At the end of each season the same dividends were voted for the outside patrons as for the members. The outsiders, however, received their dividends in cash whereas members had their dividends applied on the outstanding "gin notes." Thus the outsiders received all the benefits without being called upon to help finance the association.

Even before the issue regarding the acceptance to membership of the Midfield group had been settled, one of the leaders of that group was received as a member. The Midfield farmers even though receiving dividends in full were not satisfied with their status. They wanted either to buy the gin plant or to be taken into full membership in the Danevang organization. With the Danevang group the possible action seemed to be: accept the Midfield group as members and leave the gin at the present site; or sell the gin to the Midfield group and then build a second gin at Danevang; or move the Midfield gin to Danevang which would force the Midfield farmers to work out their own solution for ginning service. The issue of extending the membership was faced at the annual meeting of February 20, 1941. The minutes of this meeting record: "Considerable discussion concerning Midfield gin; motion

carried to leave gin at Midfield and accept members from Bohemian farmers, if of good standing and dependable." These Bohemian farmers, however, were not accepted wholesale. In the minutes of the board meeting of April 4, 1941, is this entry: "About 25 membership applications before the board; each case analyzed separately; 18 accepted (Midfield Bohemians)." At the board meeting of April 25, 1941, "Twenty applications for membership; nine accepted; 11 tabled."

Membership today in the Danevang cooperative is not open to all comers. Membership is restricted to what is characterized as the "trade territory," a term somewhat more vague than the term "community." The duty of defining the trade territory rests with the board of directors. Regarding the matter of gaining new members and retaining the support of old members, Peter Harton states: "To have to go around and try to entice new members and keep older ones every year in order to keep enough volume of business is something which we Danevang folks can hardly imagine, especially since we never have solicited anyone to become a member of any of our co-ops, but on the contrary have turned down lots of applications for membership. Truly, we can realize from such facts that circumstances have been exceptionally favorable for our organizations, and besides congratulate ourselves that we have not fallen for the temptation to believe that 'bigger' also means 'better.' "

Membership Participation

One of the impressive features about the Danevang society is the frequency with which general membership meetings are held. The habit of the general meeting was developed during the early troublesome days when the settlers held frequent gatherings to buoy up their drooping spirits. Important decisions are always made in a membership meeting rather than by the board of directors. For instance, until recently the board had to submit the question to a membership meeting if replacements in the gin plant were made in excess of $500. At the membership meeting of February 20, 1941, the upper limit on replacement under the control of the board was raised to $1,500.

The relation among the members is not always free from discord. Pronounced clashes of opinion develop at times. Each member has too much opportunity for expressing his own views to make possible a peaceful harmony which may flow from a powerful, centralized, and dictatorial leadership giving orders subserviently followed. But this can be said of the Danevang cooperators that after a decision has been reached as to a given course of action, harmony prevails in carrying out the expressed will of the majority.

The Danevang group is governed by a board of directors of seven members, elected for a one-year period. Thus the whole board is elected at each annual membership meeting. At the annual meeting of 1938, an alternate was added to the board and a rule adopted that not more than five board members may be re-elected. It would seem that the Danevang group has no fear of changes in the board. Rather, changes are

encouraged. Nominations are made by secret ballot. On the first vote in 1938, 71 ballots were cast and 58 members received one or more votes. The sixteen members receiving the highest votes, including not more than five board members, were placed in nomination. Balloting was then continued until eight members received majority votes. Of these eight, the last man elected became the alternate.

The office of alternate may serve several purposes. It offers an opportunity of training for future service on the board. So far the alternate is usually elected to the board the succeeding season. If the manager should be chosen from the board, his membership as a director is automatically canceled and the alternate becomes a full-fledged member of the board. Through a later provision, at any meeting of the board, if a member be absent, the alternate may serve in his stead.

Need for Improvement Felt

By every criteria which may be applied, the Danevang cooperative has been outstanding in its success. Nevertheless, leaders in the association are not satisfied with present attainments. The minutes of a special board meeting of February 12, 1940 record: "There was a general discussion for the purpose of determining if possible in any way our cooperative business could be improved." There is a decided feeling that many of the members do not understand the workings and philosophy of a cooperative as well as they should. The need for educational activities is recognized. A small library has been assembled. At the annual meeting in 1938 one of the members "reported on cooperative literature; urged members to read what books and pamphlets were available; brought out the point that a better and more conspicuous place for the cooperative library was needed." An Educational Committee of two members has been created recently for the express purpose of promoting educational activities.

In connection with the general plan of educational activities the annual meeting of 1942 took steps to select a group of five members to serve on a committee which has been designated as the Apprentice Board. These members are expected to attend all the meetings of the board of directors. These members are not to participate in the deliberations of the board of directors but to observe the manner in which the board transacts its regular business. It is hoped that the members of the Apprentice Board will receive essential training which will enable them later to serve effectively upon the board of directors, or in other official capacities or posts of leadership. The comments of Peter Harton concerning the Apprentice Board should be of interest. "Apprentice Board: I think this name is not quite right, and in a letter to H. A. Hansen I had proposed: Assistants (to the B. of D.). However, as I was prevented from being at the meeting, some one of our . . . members made a motion to call it Apprentice and with no opposition it carried and was entered in the minutes (I suppose). My special reasons: the term Committee or Board should not be used, as such body is (generally)

given certain tasks and powers and might lead to confusion in regard to the full power and responsibility which ought to belong exclusively to the elected Board of Directors. Assistants do not imply any such power. H. A. Hansen who was the originator of the proposal had thought to call it Junior Board. The term Apprentice has a certain legal value, presupposes 'Master,' contract, etc.—I wish you could help to get rid of that term. Too pretentious. Our directors are not 'Masters' in co-op business."

At the time a member joins the Danevang society, he pays a membership fee of $10. According to the by-laws, the fee must be used for educational purposes. As yet this fund has been used for the designated purpose only to a minor extent. This fund has now grown to $2,000. A proposal was made recently that this fund be used in financing a building to serve as the meeting place for the board of directors and the members. In connection with this building, a library could be developed. The building could also serve as a recreational center for the members.

For years members of cooperative gin associations in Texas have acquiesced in using profits to pay for the gin plant. Thereafter, members have been rather insistent that profits be used in paying cash patronage dividends. If it is legitimate and advisable to use profits in paying for the gin plant, may it not also be both legitimate and advisable to set aside a small part of the profits to finance activities and facilities which may serve the entire membership especially in the educational and recreational sphere? The Danevang cooperative is in a most favorable position to develop this aspect of the cooperative movement.

Summarizing

The Danevang settlement is more nearly a complete cooperative commonwealth than any other community in Texas. The working parts of the present cooperative machinery have been added little by little over the years. Each new part has been carefully adapted to fit into the general working machinery before becoming a permanent addition.

A large volume of ginning, efficient operations, and good management have resulted in unusually low costs of ginning. Over a 13-year period the cost has been lower by 46 cents a bale than the average standard cost of the Gulf Coast Area. The average profit even though the gin income has been $1.16 a bale lower than the average of the Gulf Coast Area has yielded an average annual return of 26 per cent on the investment in fixed assets of the gin plant.

During the past ten years net profits of all the cooperative activities of the Danevang cooperative have averaged $15,400 annually; annual profits ranged from $7,300 to $29,100. The supply business has accounted for 34 per cent of these savings and the gin business for 66 per cent. Members have been receiving cash patronage dividends averaging $109 annually per member; average annual dividends ranged from $60 to $168. Thus the net profits have been widely distributed adding

to the purchasing power of a considerable number of families. This business could easily have been operated by an individual for private gain. Thus a handsome income would be concentrated in one pocket. Besides enjoying the profits of a lucrative business, the chances are that such a business man would "own and run" the community. Under the cooperative set-up the farmers own and manage their business. This is democracy in business. The members of the Danevang society are proving every day that the old adage "That which is everybody's business is nobody's business" is far from being true in this instance. In Danevang "everybody's business" is quite as carefully and scrupulously husbanded and managed as that of the individual sharing responsibility with no one except himself.

Farmers Cooperative Association No. 1 of Tahoka

The Farmers Cooperative Association No. 1 of Tahoka, was organized as a Society gin in 1930 during a period of rapid expansion of Society gins in West Texas. Lynn County has, at present, eight active cooperative gins. The territory in which the members of the Tahoka association are located is shared in whole, or in part, with a number of other cooperative gin associations. Hence the membership does not present a solid compact area as with the Danevang Farmers' Cooperative Society. As the members are restricted to Lynn County they are not scattered over several counties as with the Childress Farmers' Cooperative Society.

Figure 10. A member of the Farmers Cooperative Association of Tahoka on his way to the gin with nine bales of seed cotton, January 9, 1943.

The minutes of board and membership meetings of the Tahoka cooperative display a keen sense of specific obligation in the cooperative movement, especially on the part of the board members and the manager. This accountability extends beyond the local membership to the outside cotton growers of the gin area and beyond the boundaries of the local association. This feeling of responsibility carries with it a positive hopeful sense of the vast opportunities for furthering the cooperative movement over a wide area.

Annual Membership Meetings

The annual membership meeting in April has become a very important event with the Tahoka cooperative. There seems to have been nothing special about these meetings until that of 1937. For instance, the meeting in 1935 was reported as having but 50 persons in attendance. Local business men, members of the local Rotary Club, and officials of nearby cooperative gin associations are usually specially invited to attend the all-day affair. The morning is usually given over to short talks by visitors. The climax is reached at noon when lunch is served. At the various meetings from 400 to 800 persons have been served. The minutes after reporting sand storms year after year as causing inconvenience and annoyance at the annual meeting recorded cheerfully "a quiet summer day" for the meeting of 1939. At the meeting of 1938, the women and children in attendance were treated to an afternoon theatre party at the local movie house.

The regular business session is held after lunch. In a number of instances the minutes recorded the meeting as being thrown open to general discussion. In each case the discussion seemed to lag because of the reticence of the members to ask questions or to express themselves.

A general idea of the nature of these meetings may be gained from the minutes of the meeting of April 26, 1939. "Morning program of short speeches. . . Lunch was served on paper plates, with a cup of slaw, two sandwiches (meat and pimento cheese), potato chips, a roll and Orange Crush or coffee. (1800 sandwiches were prepared—800 bottles of pop on hand.) Estimated 800 were fed. Special guests were members of the Band. After a concert by the Tahoka School Band, meeting was called to order at 1:15 P. M. by the President. Manager briefly explained the basis of the dividend calculation and distributed mimeographed statements with calculations for each member, which also contained financial report of the year and the past year's business. Attached to each was stock certificate, or the dividend checks, according to member's equity. In open meeting the members seemed to be in favor of continuing annual affairs like the one just held. The dividend being paid on this date was briefly outlined. Manager reported further discussion with the Auditor, Mr. Campbell, and suggestions that a larger and more substantial reserve be set up for the gin each year, out of the profits. Suggestion was made that since such a reserve was not set aside out of the exceptionally large profits of 1937-38, but an Allocated Reserve or Contingency Reserve for the members' accounts was set up, that 25% of this be put into the Gin Surplus or Reserve. Fifty per cent of this is being distributed to the members in stock at this time. This would leave from 20 to 25 per cent in the fund or around $1,800 besides putting into the Gin Surplus over $2,000. Motion to effect above plan passed."

Called membership meetings are held infrequently when some special

issue arises requiring the decision of the members as the installing of a filling station and the purchasing of a second gin plant.

The Tahoka association ginned 43,684 bales during the 12-year period 1930-31 to 1941-42. Savings on the ginning business totaled $101,292, or at the rate of $2.30 per bale ginned. Operations the first four years were moderately succesful. By the end of the 1933-34 season the association had a net worth of $9,949 created from profits left in the business. This net worth represented 35 per cent of the value of the fixed assets. Finding itself in need of refinancing in 1934, the association applied for a loan from the newly organized Houston Bank for Cooperatives. At the suggestion of the Bank, the cooperative was reorganized as a stock association and reincorporated under the Cooperative Marketing Act.

Cost of Ginning Service to Members

First money costs and out-of-pocket costs to members over the 12-year period 1930-31 to 1941-42 are summarized in Table 22. Over the whole period members paid an average gin toll of about 26 cents per cwt.

Table 22. First Money Costs, Profits, and Out-of-Pocket Costs of Ginning to Members Farmers Cooperative Association No. 1 of Tahoka (Per Bale)

Year	First Money Cost				Net Profits	Out-of-Pocket Costs	
	Gin Toll	Per Pattern B. & T.	Total	Relative Average 100.0		Net	Percentage of First Money Cost
1930	$7.60	$1.57	$9.17	146.3	$3.40	$5.77	62.9
1931	4.55	1.00	5.55	88.5	1.01	4.54	81.8
1932	4.90	1.00	5.90	94.1	1.71	4.19	71.0
1933	4.54	1.00	5.54	88.4	2.55	2.99	54.0
1934	4.90	1.26	6.16	98.2	−2.09	8.25	133.9
1935	5.46	1.00	6.46	103.0	2.81	3.65	56.5
1936	5.56	1.01	6.57	104.8	2.43	4.14	63.0
1937	4.58	1.48	6.06	96.7	3.48	2.58	42.6
1938	4.19	1.53	5.72	91.2	1.24	4.48	78.3
1939	4.61	1.29	5.90	94.1	2.13	3.77	63.9
1940	4.73	1.33	6.06	96.7	1.22	4.84	79.9
1941	6.12	1.76	7.88	125.7	3.12	4.76	60.4
Average	4.94	1.33	6.27	100.0	2.30	3.97	63.3

of seed cotton. For the four-year periods 1930-1933, 1934-1937, and 1938-1941, the first money costs averaged $6.01, $6.23, and $6.41 per bale and the net out-of-pocket costs were 67, 54, and 69 cents out of each dollar of first money cost. During the 12-year period, the average net out-of-pocket cost was 63 cents out of each dollar of first money costs. The members' first cost dollar was divided into 79 cents for gin toll and 21 cents for bagging and ties.

Costs of ginning and bagging and ties per bale and profits on ginning, bagging and ties, and cottonseed per bale are summarized in Table 23. Over the 12-year period out of every dollar of net cost of ginning service, members paid 82 cents to cover the cost of operating the gin plant and 18 cents to cover the cost of bagging and ties. The sources of each dol-

Table 23. Costs and Profits of Operation (Per Bale)
Farmers Cooperative Association No. 1

Year	Costs			Profits				Bales Ginned
	Ginning		B. & T.	Ginning	B. & T.	C/S	Total	
	Standard[1]	Actual						
1930	$7.00	$6.46	$0.96	$1.14	$0.61	$1.65	$3.40	1,017
1931	3.79	3.68	0.77	0.87	0.23	−0.09	1.01	2,622
1932	3.75	3.73	0.66	1.17	0.34	0.20	1.71	2,685
1933	3.26	3.11	0.65	1.43	0.35	0.77	2.55	3,657
1934	9.20	8.65	0.79	−3.75	0.47	1.19	−2.09	735
1935	3.92	4.37	0.72	1.09	0.28	1.44	2.81	2,525
1936	3.81	4.43	0.78	1.13	0.23	1.07	2.43	2,753
1937	2.54	2.81	0.95	1.77	0.53	1.18	3.48	8,107
1938	3.88	4.14	0.86	0.05	0.67	0.52	1.24	5,503
1939	4.03	3.82	0.96	0.79	0.33	1.01	2.13	5,443
1940	5.49	5.17	0.99	−0.44	0.34	1.32	1.22	3,227
1941	4.17	5.17	1.17	0.95	0.59	1.58	3.12	5,360
Average	$3.91	$4.08	$0.89	$0.86	$0.44	$1.00	$2.30	3,640

[1]Single plant—according to equation for Diesel gins; double plant—according to equation for Large Gins, High and Low Plains Area. See Appendix B.

lar of net profit were: 37 cents from ginning; 19 cents from bagging and ties; and 44 cents from cottonseed.

A ginning cost of $2.81 per bale for the season 1937-38 was the lowest for the whole period; the volume of ginning that season was 8,107 bales, the highest for the whole period. A ginning cost of $8.65 per bale for the season 1934-35 was the highest for the whole period; the volume of ginning that season was 735 bales, the lowest for the whole period. Ginning losses—the cost of operating the gin plant being greater than the income from gin tolls—were suffered in two seasons, $3.75 per bale in 1934-35, and $0.44 per bale in 1940-41. In only one season, however, was there a loss in net gin income, a loss of $2.09 per bale in 1934-35.

Since the Tahoka cooperative has been, and is being, financed from the profits of the gin business, gin profits shown as returns on the investment in fixed assets should have significance. Annual gin profits for the 12-year period expressed as returns on the investment are shown in Table 24. The most profitable season was 1937-38 with a return of 73

Table 24. Returns on Capital Invested in Fixed Assets
Farmers Cooperative Association No. 1

Year	Cost of Fixed Assets	Net Profits	Returns on Investment	Investment Per Bale Ginned
1930	$30,000	$ 3,456	11.5%	$ 29.50
1931	30,000	2,638	8.8	11.44
1932	30,000	4,587	15.3	11.17
1933	31,390	10,114	32.2	8.58
1934	31,191	−1,544	−5.0	42.44
1935	31,191	7,085	22.7	12.35
1936	32,697	6,720	20.6	11.88
1937	38,859	28,230	72.6	4.79
1938	63,053	6,874	10.9	11.46
1939	69,534	11,611	16.7	12.77
1940	68,092	3,925	5.8	20.78
1941	75,222	16,792	22.3	14.03
Average	44,269	8,372	18.9	12.16

per cent. The only season with a net loss was 1934-35 with a loss of 5 per cent on the investment.

The sources of all funds acquired by the Tahoka organization and the disposition of such funds are summarized in Table 25. Of the total net

Table 25. Analysis of Funds
Farmers Cooperative Association No. 1
Seasons 1930-31 to 1941-42

	Dollars	Percentage of Total
Sources of Funds:		
Net Profits after Depreciation	101,292	57.5
Provision for Depreciation (not involving cash)	23,116	13.1
Increase in Capital Stock	46,543	26.4
Correction to Surplus: correcting profits shown for prior periods and excess of Depreciation Reserve on Assets sold	1,590	0.9
Increase in Current Liabilities	3,678	2.1
Total	176,219	100.0
Disposition of Funds:		
Purchase of Investments	9,160	5.2
Additions to Permanent Assets	57,396	32.5
Additions to Current Assets	22,190	12.6
Increase in Other Assets including Prepaid Expenses	1,682	1.0
Net Payments on Mortgages	10,550	6.0
Totals Used in Operations	100,978	57.3
Paid in Dividends	75,241	42.7
Total	176,219	100.0

profits earned, 43 per cent has been distributed to the members as cash dividends. By the end of the 1941-42 season, profits left in the business to finance the investment in fixed assets have absorbed 10 cents of each dollar of first money cost.

Acquiring a Second Gin Plant

The average volume of ginning per season of the Tahoka association for the 6-year period 1930-31 to 1936-37 was 2,285 bales; the largest volume for any one of these seasons was 3,657 bales. The volume of ginning in 1937-38 was 8,107 bales, 122 per cent greater than the largest previous season and 255 per cent greater than the average volume of the preceding six seasons. Following the heavy volume of 1937-38, an agitation was started for increasing ginning facilities before the opening of the 1938-39 season. The first official mention of a second plant was made in the minutes of the board meeting of June 7, 1938. At this session a letter from Sterling Evans, President of the Houston Bank for Cooperatives, was read regarding the expansion of ginning facilities. He suggested either increasing the capacity of the cotton house or leasing a plant rather than the outright purchase of an added plant. He made the point that the association needed to pay dividends one or two years more and get on a more substantial footing. After a discussion of the

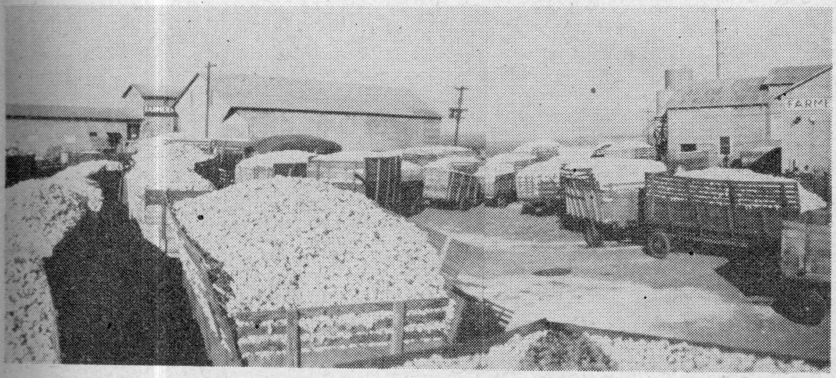

Figure 11. A sea of seed cotton on the gin lot. A situation like this explains the reason members with a single plant sometimes clamor for a double plant.

letter, one of the directors made a motion to drop the whole matter of buying a second plant; his motion died for want of a second.

At a board meeting three weeks later one proposal discussed was the adding of a sixth gin stand; a second proposal discussed was the purchase of a gin plant on an adjoining lot. The question of a second plant was finally settled at a called membership meeting, July 12, 1938. After an explanation of the proposed purchase the motion was made and seconded to empower the board of directors to purchase a second plant. All the discussion to the motion was in favor. A rising vote was called for. Nearly all the members voted for the motion; no one voted against the motion; so the vote was declared unanimous in favor of the purchase.

The profits of the first seven seasons with a portion of the profits of the eighth season were required to pay for the original plant. Members were paid very small cash dividends in 1935-36 and 1936-37. Considering the long period of but scanty cash dividends together with the great emphasis placed on cash patronage dividends, one wonders at the enthusiasm of the members of the Tahoka association to expand ginning facilities. Certainly any business providing itself with facilities to carry the occasional peak load, burdens itself with expensive excess capacity. In the drives to increase the capacity of cooperative gins there seldom seems to be any suggestion that the membership be increased in keeping with the expanded capacity. Adding a second plant without increasing the membership is in substance very much the same as if the single plant be maintained and the membership be reduced to about one-half. One wonders what enthusiasm might be generated for a program of reducing the membership of the single plant as the way out to maintain capacity for the peak load.

The net effect of the added plant, membership remaining the same, can best be illustrated by comparing costs and profits at various volumes of ginning for the single plant at its investment as of 1937-38 with costs

and profits at the same volumes for the double plant at its investment as of 1938-39. These comparisons may be made under the assumption that costs for the two plants be standard. Such comparisons are analyzed in Table 26. The investment in the gin plant is a most important factor

Table 26. Comparisons of Costs and Profits of Single Plant of 1937-38 With Those of Double Plant of 1938-39[1] Farmers Cooperative Association No. 1

R/B Ginned	Fixed Costs Per Bale		Profits Per Bale		Total Profits		Returns on Investment		Inv. Per Bale Ginned	
	Single Plant	Double Plant	Single Plant	Double Plant	Single Plant	Double Plant	Single Plant	Double Plant	Single Plant	Double Plant
1,000	$6.33	$11.71	−$1.63	−$7.00	−$1,630	−$7,000	−4.2%	−11.0%	$38.86	$63.05
2,000	3.16	5.86	1.54	−1.15	3,080	−2,300	7.9	−3.6	19.43	31.53
3,000	2.11	3.90	2.59	0.81	7,770	2,430	20.0	3.9	12.95	21.01
4,000	1.58	2.93	3.12	1.78	12,480	7,120	32.1	11.3	9.71	15.76
5,000	1.27	2.34	3.43	2.37	17,150	11,850	44.1	18.8	7.77	12.61
6,000	1.05	1.95	3.65	2.76	21,900	16,560	56.4	26.3	6.47	10.51
7,000	0.90	1.67	3.80	3.04	26,600	21,280	68.5	33.7	5.55	9.01
8,000	0.79	1.46	3.91	3.25	31,200	26,000	80.5	41.2	4.86	7.88

[1]Gin Income Per Bale: $6.46.
Investment: Single Plant, $38,859; Double Plant, $63,053.
Fixed Cost: Single Plant, $6,325; Double Plant, $11,713.
Variable Cost Per Bale: Single Plant, $1.76; Double Plant, $1.75.
"Break Even" Volume: Single Plant, 1,243; Double Plant, 2,400 Bales.

in fixed costs. The fixed cost of the single plant was $6,325 and of the double plant, $11,713. The fixed cost per bale varies inversely with the volume of ginning. The fixed costs per bale decreased from $6.33 to $0.79 for the single plant and from $11.71 to $1.46 for the double plant as the volume increased from 1,000 to 8,000 bales. The relative disadvantage of the double plant is much more pronounced in the lower volumes than in the higher volumes. With the low volume of 735 bales as of 1934-35, and with a gin income of $6.46 a bale, the losses for the single plant as of 1937-38 would have totaled $2,871, or $3.91 per bale and losses for the double plant as of 1938-39 would have totaled $8,251, or $11.23 per bale. In a territory like West Texas with violent swings in cotton production, members of a cooperative gin association in equipping themselves for the bumper crop seasons should also give some thought to the short crop seasons.

Profits per bale are significant to members receiving cash patronage dividends; returns on the investment are significant during the period of paying for the gin plant out of the profits of the ginning business. According to Table 26 the trend of profits per bale as the volume increased from 1,000 to 8,000 bales was upward from a loss of $1.63 to a profit of $3.91 for the single plant and from a loss of $7.00 to a profit of $3.25 for the double plant. The trend in returns on the investment as the volume increased from 1,000 to 8,000 bales was upward from a loss of 4 per cent to a profit of 81 per cent for the single plant and from a loss of 11 per cent to a profit of 41 per cent for the double plant. At a volume of 5,000 bales per season, slightly above the average ginned the past four years, the single plant could not quite pay out its invest-

ment from the profits of two seasons; the double plant would require the profits of six seasons. At a volume of 5,000 bales, the pro rata share of the investment of a 25-bale member would be $194 in the single plant and $315 in the double plant.

Another approach to the effect of the change in size of plant is to determine the increase of volume needed in the double plant to earn the same profit per bale, on the one hand, and the same return on the investment, on the other hand, as in the single plant with a given volume. Such increases are indicated in Figure 12. Any specific volume of the single plant requires an increase of about 85 per cent in the double plant

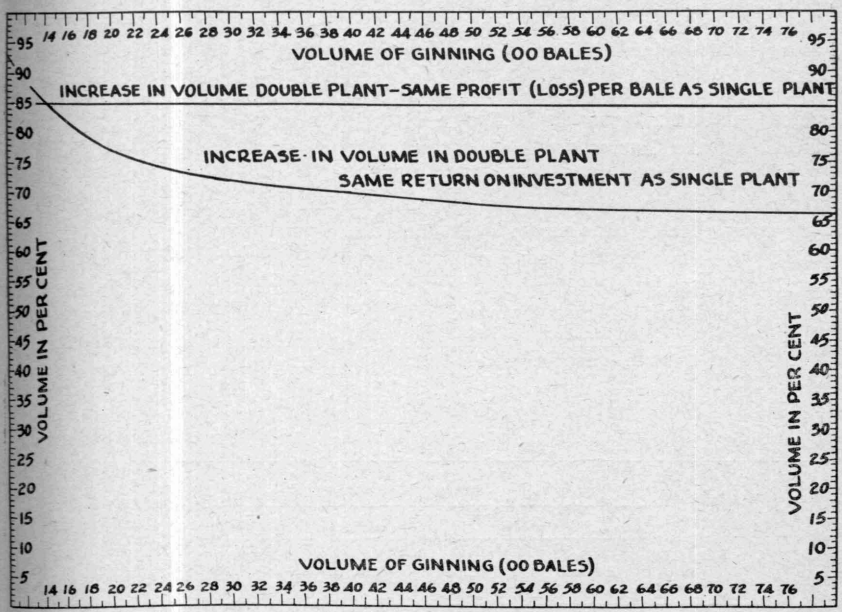

Figure 12. **Percentage increases in volumes of double plant over specific volumes of single plant to yield the same profits per bale or the same percentage returns on the investment in fixed assets. Farmers Cooperative Association No. 1 of Tahoka.**

to yield the same results per bale—losses in the low volumes and profits in the higher volumes. The returns on the investment of the single plant at volumes of 1,000 and 8,000 bales require increases in volume of 94 and 66 per cent to yield the same returns on the investment in the double plant. Volumes of 3,000, 4,000, and 5,000 bales yield returns of 20, 32, and 44 per cent on the investment in the single plant. Increases of 72, 70, and 68 per cent, or volumes of 5,160, 6,800, and 8,400 bales yield returns of 20, 32, and 44 per cent on the investment in the double plant.

A special type of problem facing a board of directors operating a two-plant gin is revealed in the minutes of the board meeting of November

5, 1938—"Operating policy of the two plants for end of season briefly discussed; it was concensus of the Board that when one gin could take care of the ginning, that one be closed down one week and the other operated, this to follow on alternate weeks. It was thought this would be fair to employees, the customers and each plant. The cotton houses to be open at all times, if a customer preferred to house rather than gin his cotton."

In fairness to the Tahoka cooperative attention should be called to the fact that the average volume of the four seasons of the double plant was 39 per cent larger than the average volume of the last four seasons of the single plant.

Trend in the Size of Gins

In connection with this discussion of plant size of the Tahoka organization, attention may be called to trends in size of Texas gins. The Bureau of the Census made special surveys of ginning facilities in 1906, 1909, 1914, 1919, 1935, and 1940. The average size of gins in Texas increased, without a break, from 204 saws in 1906 to 337 saws in 1935. The average size of gins in 1940, however, was exactly the same as in 1935. This halt in the trend of increasing size may be significant. The number of gins in 1940 was 10 per cent less than in 1935. The average size was maintained by a balance between the small gins and large gins abandoned. The number of gins of 1940 according to size and the decrease in the number of gins between 1935 and 1940 according to size are indicated in Table 27.

Table 27. Size of Texas Gins[1]

Size of Gins in Number of Stands	Number of Gins				Relative Number of Gins 1940 of 1935
	1940		Less in 1940 than 1935		
	Actual	Percentage	Actual	Percentage of Total Reduction	
One	14	0.4	11	3.1	56
Two	92	2.9	44	12.3	68
Three	313	9.8	50	14.0	86
Four	1,396	43.5	19	5.3	99
Five	1,167	36.4	152	42.4	88
Six	78	2.4	29	8.1	73
Multibattery	146	4.6	53	14.8	73
Total	3,206	100.0	358	100.0	90

[1]Department of Commerce, Bureau of the Census: Cotton Ginning Machinery and Equipment in the United States 1940.

The four- and five-stand gins were predominant in 1935 and 1940 making up 40 and 37 and 44 and 36 per cent of the total number of gins. The three-stand gins were a poor third. As between 1935 and 1940, the one-, two-, and three-stand gins decreased by 20 per cent, the five- and six-stand and multibattery gins decreased by 14 per cent, and the four-stand gins decreased by but 1 per cent. In absolute number

of gins the heavy reduction was in the five-stand gins, 42 per cent of the total reduction.

Instead of giving all attention to increasing the size of the gin plant in this matter of adjusting capacity to needs, cooperatives might profitably consider the advisability of decreasing capacity either through the actual reduction in facilities or through a relative reduction by increasing the membership. The possibilities of a three-stand or a four-stand gin operated with a large cotton house of 1,000 bales capacity, or more, have not yet been explored. In such a set-up in areas of relative heavy production per grower, lots of five, 10, 15, or more bales of seed cotton of a patron could be assembled and ginned in a continuous run. A very large part of the loss of time between bales could thus be avoided. Much of the loss of ginning time resulting from adverse weather conditions might also be avoided. In connection with the cotton house the cleaning equipment could be operated as could the cotton dryer if one were installed. A great saving in investment may be effected in changing from a five-stand to a four-stand gin when the power unit needs to be replaced. The cost of a unit of sufficient power to operate a four-stand gin is decidedly less than the cost of a unit of sufficient power to operate a five-stand gin. Considering the greater control which a cooperative exercises over its patrons than that of the private ginner and considering further the direct gain to members from every measure which reduces costs of ginning, the cooperative gin association should be in a strong position to give the small-gin-large-cotton-house combination a fair trial.

Educational Activities

The leaders in the Tahoka organization have given much thought to the various aspects of a constructive educational program. In the educational activities, the needs of the membership have been considered as well as the possibilities of reaching the leaders of other cooperatives within the county and in surrounding counties. At the board meeting of February 16, 1937, the "manager reported on the need for education among the members on the value of their cooperative organization and bulletins available." At the following board meeting, "favorable comment was made on policy of mailing members an informational letter at stated intervals, such having been done in December and February. The next is to go out in April, advising members of annual meeting, purposes and such other necessary information as they are entitled to have." This marked the beginning of the COOP-O-GRAM of which Volume 7, Number 6, was issued in December, 1942 (See Appendix D). In this two-page mimeographed release matters of current interest and timely information regarding the affairs of the association are called to the attention of the members.

The Tahoka association has made notable progress in the type of annual report prepared for the members. The report for the season 1939-40, for instance, contained 14 pages. The more important features

of the report were: the president's letter to the members (See Appendix D); a list of the active stockholders; a comparative statement of incomes and expenditures, and balance sheet for the seasons ending March 31, 1939, and March 31, 1940; a summary of results by seasons of ginning operations as to volume of ginning, net profits, stock dividends, cash dividends, and of station operations as to volume in gallons, amount of sales, and profits; a form for reporting to each member his cash and stock dividends for the season and his balance in the equity account at the beginning and end of the season; and a number of sections of a general educational nature (See Appendix D).

Several years ago provisions were made for a second membership meeting for the Fall "to be on educational lines which would be in addition to the annual meeting in April as called for in the by-laws." The first meeting of this type was held September 4, 1941. The minutes of the board meeting of September 16, 1941 made reference to this meeting. "Members and friends began to gather after 6 p. m. with their basket lunches. The band played a concert and the children played in the park. It was estimated about 200 attended. Instead of moving to the Court room for the final part of the program, the crowd was held in the park and a short program given with Mr. Leonard Cowden of the CCA of Amarillo making the main talk. Watermelons were cut, and 100 Dixie ice cream cups were added as dessert. Many were very busy in the field poisoning or gathering which with the weather caused changes in some of the plans and cut the attendance very much."

At the board meeting of December 10, 1935, the "suggestion was made for a Rally of Cooperative Directors and Managers of the territory at some future date, to stimulate interest in Cooperatives." At the board meeting of March 13, 1940, "The County Council for Cooperatives suggested by this Association met with a favorable response and the Board voted to call a general organization meeting for March 18, with Manager sending out immediate notices." The South Plains Cooperative Council was organized May 16, 1940. About a dozen cooperative gins and several other types of cooperatives joined. A number of meetings were held and a program of activities was worked out. Whatever the reason, after a few months, the council became inactive.

The Tahoka association took active interest in promoting the School for Cooperators sponsored by the Texas Agricultural Extension Service and held at the Texas Technological College at Lubbock, June 24-26, 1940. The president reported on the school to the board meeting of July 9, 1940. The thought was expressed that the information given at the school was greatly needed by the members of cooperatives in general.

Side Line Business

At the board meeting of October 10, 1934, the question of leasing a filling station was discussed. The manager was instructed to investigate. Two months later the board decided that a service station would be of more benefit to the members if located at the gin. The acquiring

of a filling station was the special business of a called membership meeting of December 20, 1934. The question was thoroughly discussed. When put to a vote, the adding of a filling station won by a majority of 24 votes. According to the original plans the gin and the filling station were to have the same board of directors but each enterprise was to be a separate corporation. In this way it was hoped that the business of the two branches would not become confused. The plan was to sell stock to members of the gin in amounts of from $5 to $40. Before the close of the special meeting more than $200 in cash was collected for financing the new business. When the filling station was organized early in 1935, it was not set up as a separate enterprise but as a department of the gin association.

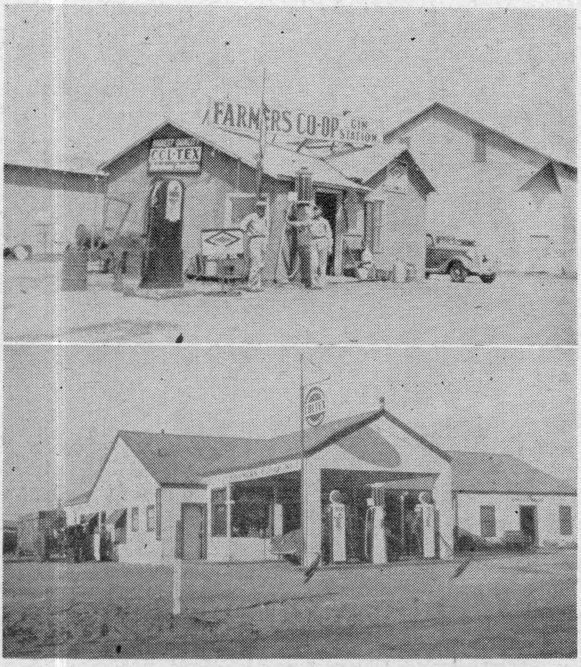

Figure 13. Outward symbols of a growing business. Upper—Filling station built in 1935. Lower—Filling station and office built in 1939. Farmers Cooperative Association of Tahoka.

The volume of business of the filling station has had a rapid and steady growth. The business in gasoline, tractor fuels and oils has increased from 57,000 gallons in 1935 to 427,000 gallons in 1942. Gross sales reached a total of $76,000 in 1942. For the four-year period 1938 to 1941, gross margins averaged 17.5 per cent and the net profit averaged 5.8 per cent of gross sales. A patronage dividend of 5 per cent on the member's purchases has been paid quarterly thus far.

Special effort is made to gain the business for the station of the farmers moving into the territory about the first of the year. This has greatly simplified the matter of securing the interest of these farmers in the cooperative ginning business. Experience has demonstrated that the filling station members make the best gin members.

Rather recently, some attention has been given to broadening the scope of the side line business. During the summer of 1939 much attention was given to the organizing of a cold storage locker plant. More than 100 members were gained for the proposed enterprise. Finally, however, the Plains Cooperative of Plainview installed a cold storage locker plant in Tahoka. According to the minutes of the board meeting of August 13, 1940, "A suggestion that the Board be thinking of opening a Garage for repairs on cars and tractors was made and received favorably by the directors, this business to be strictly on cash basis and at prevailing rates, with dividends quarterly as in the Station. The O'Donnell Cooperative has made the initial step in this direction and their success is to be watched." At the board meeting of April 4, 1942, the "subject of entering the feed business was discussed, pro and con, but . . . no decision was reached; the President suggested that each member study the question for later action."

The filling station introduced the vexing question of what to do about the persistent demand of members to be granted the privilege of buying supplies on credit. At nearly one-half the board meetings from July, 1938, to December, 1940, the matter of accounts receivable was discussed. As an indication of attempts made to solve this question, the minutes of a few of these discussions are given below:

"September 17, 1940—Recommendation was made that the Directors consider putting the Station business on a cash basis beginning January 1, 1941. Approval of such a plan was expressed by some while others withheld comment.

"October 8, 1940—Cash basis for the operation of the Station was discussed, rules and plans for operation of the same to be submitted to take effect January 1st.

"November 12, 1940—Charge accounts were discussed and the need for a systematic manner of handling and opening as well as collecting the same. It was suggested to train all the employees in the method of handling and as to whom is entitled to credit and whom to turn down. Certain rules to follow were suggested as follows:

1. Obtain local Retail Merchants Credit Bureau rating.
2. Must be active stockholder—can be waived.
3. A credit limit placed on each account and held to. (Credit Committee to assist)
4. Accounts must be paid promptly or no more charges allowed.
5. Pay days 1st and 15th—employees to send notices.

Manager instructed to handle carefully and tactfully, with each case on its own merits, and always leave the customer in good humor.

"December 10, 1940—Brief discussion was had on charge accounts, the policy of a stricter system of allowing credit and collections and the

propaganda now being spread by competition that our customers were to be cut off on first of the year."

The attention given to accounts receivable by the board of directors and the manager has been effective in maintaining control over this item. As shown in the balance sheet, the highest amount reached during the first six seasons was $700, that of the end of the 1935-36 season. The next three seasons accounts receivable became progressively larger being $1,100, $4,400, and $5,400. At the end of 1939-40, this item dropped slightly to $5,000. At the end of 1940-41, the season so much special consideration was given to accounts receivable, the item dropped to $2,300. At the end of 1941-42, accounts receivable had increased to $4,100.

Figure 14. Oil trucks used in making deliveries of fuel oils to the farms of members. Farmers Cooperative Association of Tahoka.

In the audit of 1941-42 a careful examination was made of accounts receivable of the seasons 1936-37 to 1941-42. All accounts charged off as worthless amounted to $253 for the station business and $713 for the ginning business. The auditor made this comment in his reports: "A reserve for Bad Notes and Accounts is carried in the amount of $800 . . . ; the above amount (the $253 and $713 charged off) represents the entire amount determined worthless to this date. This is a remarkable record, considering the volume of turnover in Accounts Receivable." Notes receivable amounted to but $600 at the end of 1941-42. In the light of the past experience, the reserve of $800 should be ample protection against bad accounts and notes.

Dividend Policy

Since reorganizing on the stock basis, the Tahoka association has not followed the plan of paying off all indebtedness before declaring cash

dividends. Instead the dividends voted have usually been divided into about 50 per cent cash and 50 per cent stock credits.

For a number of years dividends of 8 per cent were voted on the outstanding stock, either as cash or to be applied as stock credits. At the board meeting of March 13, 1940, the dividend rate was lowered to 6 per cent. "The Board discussed the interest rate (dividend) to be paid on stock and agreed that it was to the greatest good to pay as much as possible on the patronage basis, rather than a big cash dividend on the stock owned, the advancement and success of the Association depending on patronage, rather than stock outstanding."

The losses suffered in 1934-35 were originally set up as charges against the equity accounts of the members according to the patronage of that season. Charging losses as negative dividends is a rather unusual procedure. The minutes of the board meeting of March 9, 1937 record the final action taken. "Manager reported that the loss suffered in the season 1934-35 had been charged to individual equity or stock accounts of the members, but found that there was sufficient surplus to absorb this, without such charge and permission was given to reverse these entries as of this date; . . . "

Dividend rates, both stock and cash, according to the stock held by the members and the patronage are summarized in Table 28.

Table 28. Dividend Rates—Farmers Cooperative Association

Season	Stock Dividends			Cash Dividends			
	Stock	R/B	C/S Per Cwt.	Stock	R/B	C/S Per Cwt.	Station Purchases
1930–1934		$1.15[1]					
1935	4%	0.50	12.5¢	4%	$0.50	12.5¢	5%
1936	4	1.00	20.0	4	0.75		5
1937				6	1.00	5.0	5
1938					1.00		5
1939	3	0.25	2.5	3	0.50	2.5	5
1940	4	0.25	7.5				5
1941		1.50	15.0	4			5

[1]Average stock dividend per running bale. The stock as actually issued was according to the patronage dividend credits established season by season.

The Tahoka association has made provisions for two reserves which have a bearing on dividend policy. A reserve designated as "Gin Surplus" was started in 1938. This reserve is to absorb losses suffered in short crop seasons. Ten per cent of the net profits are set aside for this reserve. The maximum of the reserve has been fixed at $5,000. Instead of issuing stock to members at the end of the season to the full amount of their stock credits, a considerable percentage, 25 or more, is withheld in what is termed the "Contingency Reserve." The purpose of this reserve is to maintain the value of the stock at par, or above, by making certain that the stock outstanding will be less than the net worth of the association. These two reserves are most desirable and should do much to give financial stability to the association.

Financing Program

The Tahoka association purchased a secondhand gin plant in 1930 at a cost of $30,000. No down payment was made. During the period of operation as a Society gin, all profits were applied against the indebtedness. These profits were computed as patronage dividends and an equity account was opened for each member. In the reorganized stock association, common and preferred stock were provided for. The par value of the common stock was fixed at $10 a share and of the preferred at $25 a share. The common stock became the voting, or membership stock, one share to the member. The remainder of a member's equity was evidenced in preferred stock. Members received their first stock in 1936 based on the equities accumulated under the Society organization. The amount issued at that time was $1,520 in common and $10,130 in preferred, or a total of $11,650.

The heavy turnover of members has introduced a vexing problem in developing a policy in the refunding the stock holdings of the retiring members. The nature of this problem may be indicated by quoting from the minutes of the board meetings:

"March 10, 1936—The Manager reported that some members wanted to dispose of their stock because of removal from the territory. Motion passed that Manager be authorized to act for the Board in aiding members to dispose of their stock, thru sale or trading. Passed. Also to take proper steps to protect the stock and not let it become worthless in the eyes of stockholders or the public.

"January 11, 1938—President suggested and others agreed that Management assist in all ways possible to aid members in selling stock, but in our present financial status, not feasible for Gin to take up stock as regular practice.

"November 14, 1939—It was the sense of Board that not able to take up stock of any farmers now moving or show any favor over those remaining in this regard, but assist in disposition as far as possible in finding buyer and transferring. Board realized that not practical to retire any member's stock upon his demand, for any cause, but in matter of those withdrawing would at once work on plans to take up part of stock and do all could in expediting revolving of stock for all.

"December 12, 1939—Manager reported . . . that there were between 60 and 70 common stockholders who had moved away in last 5 years and whose accounts were not active. It was the opinion of the Board that a plan should be adopted to take up at least the member's $10 common stock immediately upon his removal and push the retirement of the preferred as we were able.

"March 13, 1940—The retirement of the membership stock of $10 of those having moved away was discussed, but definite action delayed."

In the effort to solve the problem of refunding the stock of retiring members, several definite changes in the stock structure of the association developed. The plan of substituting preferred stock for the com-

mon stock necessitated lowering the par value of the preferred stock. The membership meeting of April 21, 1938, changed the par value of preferred stock from $25 to one dollar a share. In working out a solution for liquidating the preferred stock of the retired members, the plan emerged of revolving the stock not only of the retired members but also of the active members. The first official mention of revolving the stock was contained in the minutes of the called membership meeting of July 12, 1938. "Revolving Stock Dividend checks were then distributed and explanation made of this feature of our operations; 50% of the earnings for 1930-31 were returned to the patrons and checks totaled over $1,500 at this time."

Official action on the transference of the common stock of retired members to preferred stock was taken at the board meeting of April 12, 1941. "The matter of taking up the common or voting stock of members who have moved away and issue therefor preferred stock was presented; explanation was made that it might affect our income tax exemption, on account of 50 or 60 voting members not being active, having moved away and it would make it possible to keep voting membership in current status. Also that it would be in favor of the stockholder, who would be entitled to interest in case of dissolution, his interest on preferred stock. Motion made and carried that we take up the common stock and issue therefor preferred stock."

At the membership meeting of April 24, 1941, an amendment to the by-laws authorizing the revolving of the preferred stock was passed. "After an adequate amount of capital has been provided for the association through amounts retained from net profits, as provided in Article V, Subsection 3 a, b, and c, an amount of the oldest outstanding preferred stock may, in the discretion of the Board of Directors, be redeemed or retired as provided in this article first mentioned above."

The revolving stock plan as adopted by the Tahoka association is based on profits as the source of the funds revolved. No definite program is followed in revolving the stock other than on the direct action of the board of directors from time to time. The desirability of acquiring the funds revolved from a retain per bale and of revolving the equity over a definite period of time as outlined for the Childress Farmers' Cooperative Society (Assigning of Equities) and the Danevang Farmers' Cooperative Society (Substituting Certificates for "Gin Notes") applies with equal force to the cooperative association of Tahoka. With the average volume of the past four seasons, 60 per cent of the investment in the gin plant could be revolved in seven years on a retain of about $1.25 per bale. The heavy turnover of members might make a shorter period more desirable. If a cycle of five years were adopted, a retain of about $1.80 per bale would be required.

It might be worth the attention of the cooperative gin associations of Texas to give some thought to the possibilities of establishing an exchange to act as a clearing house for transferring the equities of members moving from one cooperative gin area to another. Such an exchange

could be operated by the Texas Cooperative Ginners' Federation, or by the various cooperative oil mills for their member gins, or by a service organization like the Gin Service and Supply Company. The services of such an exchange would be greatly facilitated if steps were taken to attain greater standardization of the capital structure of the various cooperative gin associations. The opportunity of a member to transfer his equities from one gin association to another should make membership in a cooperative gin much more attractive to tenant farmers.

Assets expressed as percentages of the total under the classifications: current; fixed; investments; and others, as of the end of the seasons 1930-31 to 1941-42 are indicated in Table 29. Current assets reflect the influence of the side line business. For the seasons 1930-31 to 1934-35,

Table 29. Assets
Farmers Cooperative Association No. 1

Year	Total Assets	Percentages			
		Current	Fixed	Investments	Other
1930	$31,203	7.9	90.6	--	1.5
1931	27,246	2.0	97.5	--	0.5
1932	26,483	5.9	93.6	--	0.5
1933	28,731	6.0	93.8	--	0.2
1934	25,465	3.1	92.3	3.1	1.5
1935	33,737	11.6	84.0	2.4	2.0
1936	37,279	20.7	75.3	2.1	1.9
1937	61,177	37.2	51.6	10.6	0.6
1938	79,107	18.1	72.5	8.2	1.2
1939	86,231	17.7	73.9	7.5	0.9
1940	80,640	11.9	77.5	9.6	1.0
1941	97,312	22.8	66.1	9.4	1.7

before the side line business was added, current assets averaged $1,400 per season. Of this amount 64 per cent was in cash; 19 per cent in accounts and notes receivable; and 17 per cent in inventory. For the seasons 1935-36 to 1941-42, after the side line business was added, current assets averaged $13,700 per season. Of this amount 38 per cent was in cash; 27 per cent in accounts and notes receivable; and 35 per cent in inventories.

Liabilities expressed as percentages of the total under the classifications: current; fixed; capital; and surplus, as of the end of the seasons 1930-31 to 1941-42 are indicated in Table 30. Of special interest is the relative status of net worth rising from 7 per cent at the end of 1930-31 to 91 per cent at the end of 1937-38 when all fixed liabilities were retired. With the purchase of the second gin plant on credit in 1938, the net worth as of the end of 1938-39 season dropped to 66 per cent; by the end of 1941-42, net worth rose to 76 per cent while fixed liabilities stood at 20 per cent. As may be noted in the COOP-O-GRAM of December, 1942, quoted in Appendix D, all outstanding fixed liabilities were retired out of profits of the 1942-43 season.

Table 30. Liabilities and Net Worth
Farmers Cooperative Association No. 1

Year	Total Liabilities	Percentages					
		Liabilities			Net Worth		
		Current	Fixed	Total	Capital	Surplus	Total
1930	$31,203	3.3	89.7	93.0	--	7.0	7.0
1931	27,246	--	87.7	87.7	--	12.3	12.3
1932	26,483	--	87.9	87.9	--	12.1	12.1
1933	28,731	--	65.4	65.4	--	34.6	34.6
1934	25,465	1.2	67.8	69.0	--	31.0	31.0
1935	33,737	1.4	37.7	39.1	35.2	25.7	60.9
1936	37,279	1.9	24.5	26.4	41.4	32.2	73.6
1937	61,177	9.1	--	9.1	34.3	56.6	90.9
1938	79,107	5.7	28.1	33.8	36.8	29.4	66.2
1939	86,231	10.4	23.1	33.5	41.5	25.0	66.5
1940	80,640	6.7	23.9	30.6	51.8	17.6	69.4
1941	97,312	3.8	20.0	23.8	47.8	28.4	76.2

Summarizing

The Farmers Cooperative Association of Tahoka is doing pioneering work in the educational field. The type of annual meeting held, the annual report furnished the members, and the monthly house organ, the COOP-O-GRAM are most effective in maintaining an informed membership. These constructive activities reflect intelligent and alert management and leadership.

The association has demonstrated clearly how to handle the problem of a rapid turnover of members due to a high percentage of tenancy. The side line business is proving most effective not only in reducing the cost of supplies but also as a means of acquiring members for the gin business. The substituting of preferred stock for the common stock of retiring members and the liquidating of the non-member equities through a revolving stock plan should help materially in solving the vexing problem of what to do about the stock of retiring members.

The Tahoka association is one of the very few cooperative gin associations of Texas which have created a reserve against losses of short crop seasons. The association is also setting a good example in maintaining a reserve to protect the value of the stock outstanding.

While the adding of a second plant in 1938 may have been unwise, the fact that the average volume has since been increased by about 40 per cent, has, in part, offset the disadvantages of the increased ginning facilities.

Farmers' Cooperative Gin Association of Mabank

The Farmers' Cooperative Gin Association of Mabank was organized in 1935. It is the only association of the four considered in detail in this Bulletin that was financed from the beginning by the Houston Bank for Cooperatives.

In the seven-year period, 1935-36 to 1941-42, the Mabank association ginned a total of 19,437 bales, or an average of 2,777 bales per season.

Net profits on gin operations totaled $56,118, or a return of 49 per cent on the average investment in fixed assets. Cotton trading and other profits added an average of $1,378 per season. The total net profits on all activities of $67,496 yielded an average return of 59 per cent on the investment. Successful operations like these are what popularize profit financing of cooperative gin associations.

The Mabank association is in a territory of low production of cotton per farm. This situation is reflected in the ginnings of the patrons. During the three-year period 1939-40 to 1941-42, the average volume in bales per patron for the various cooperatives was as follows: Childress, 19; Danevang, 28; Tahoka, 21; and Mabank, five. Ginnings of patrons according to volume for the Childress, Tahoka, and Mabank associations are summarized in Table 31. Seventy per cent of the Mabank

Table 31. Volume of Ginning of Patrons
Childress Farmers' Cooperative Society
Farmers Cooperative Association of Tahoka
Farmers' Cooperative Gin Association of Mabank

Bales Per Patron	Percentages					
	Patrons			Volume of Ginning		
	Childress	Tahoka	Mabank	Childress	Tahoka	Mabank
1- 5	28.0	26.3	70.2	4.3	3.2	36.0
6- 10	19.4	14.4	19.6	8.1	5.4	29.5
11- 15	12.2	11.3	5.9	8.3	7.0	14.5
16- 20	9.5	10.5	2.2	8.9	9.0	7.8
21- 25	7.5	6.5	0.8	9.1	7.0	3.4
26- 30	5.1	8.4	0.4	7.6	11.0	2.3
31- 35	3.4	5.6	0.2	5.8	8.7	1.1
36- 40	3.6	4.1	0.2	7.2	7.3	1.8
41- 45	2.2	2.7	0.2	5.0	5.5	1.5
46- 50	1.5	2.3	0.1	3.7	5.1	0.6
51- 60	2.9	3.0	0.1	8.5	7.7	0.7
61- 70	1.4	1.5	0.1	4.5	4.6	0.8
71- 80	0.8	1.2		3.1	4.3	
81- 90	0.9	0.9		4.1	3.6	
91-100	0.3	0.3		1.7	1.4	
100-up	1.3	1.0		10.1	9.2	
Total	100.0	100.0	100.0	100.0	100.0	100.0

patrons furnishing 36 per cent of the total volume delivered five bales, or less. Twenty-eight and 26 per cent of the patrons of Childress and Tahoka furnishing 4 and 3 per cent of the total volumes delivered five bales or less. While 30 per cent of the patrons of Mabank delivered six bales, or more, 31 per cent of the patrons of Childress delivered 21 bales, or more, and 31 per cent of the patrons of Tahoka delivered 26 bales, or more.

An association having members with a low average cotton production requires a large membership to attain an economic volume of ginning. A large membership complicates the problems of a cooperative. This is especially the case in an area like that of Mabank with a high percentage of tenants. About two-thirds of the members of the Mabank association are tenants. Thus a large membership necessitates a heavy turn-

over of members each season. In no section of Texas is the gin income per bale as low and in no section is the relative over-capacity of gin plants so pronounced. These factors would seem to indicate that the general situation surrounding the Mabank cooperative is most adverse to a successful association. These unfavorable conditions, however, have all been surmounted. The high volume of ginning secured, the high gin income per bale maintained, and the unusually profitable operations attained, all attest to the extraordinary success of the Mabank cooperative.

During the three-year period 1939-40 to 1941-42, 43 per cent of the patrons of the Mabank association was non-members. These non-members delivered 30 per cent of the total volume of ginning. During the period annual profits on gin operations averaged $8,017. At a volume 30 per cent less, assuming the same relative efficiency and gin income per bale, the average net profit would have dropped by 42 per cent to $4,643. The average volume per patron was 3.5 bales for non-members and 6.2 bales for the members.

Maintaining Gin Charges First Season

The Mabank association had an experience of far-reaching consequences the first season. For a number of years growers in this territory had been paying a gin toll of 35 cents per cwt. of seed cotton. Before the opening of the 1935 season, the cooperative and the private competitors seemed agreed to maintain the 35-cent rate. Very shortly after the opening of the season, the competitors dropped to 30 cents; the cooperative followed suit; the competitors then dropped to 20 cents. To the great credit of the members, they seemed to realize exactly what was happening. The cooperative decided to maintain the 30-cent rate and not more than about a half dozen members deserted to obtain the immediate benefit of the 20-cent rate.

As the volume was maintained and gratifying profits earned, the management decided that all patrons should be paid a cash dividend of one dollar a bale at the end of the season. This was in conflict with a rather strict ruling of the Houston Bank for Cooperatives that no cash dividends be distributed until the first mortgage is paid off. As profits were sufficient to take care of both the 1935 and the 1936 installments to the Bank, with sufficient profit left over to pay the one dollar dividend with still a surplus to be used for operations the coming season, the Bank finally agreed to the cash dividend.

This cash dividend paid in 1935 spoke so eloquently of the success of the cooperative gin, that many new members were gained the following and succeeding seasons. Even a number of the members who deserted their cooperative in 1935, paid up the installment on their notes and acknowledged that they had made a mistake in not ginning with their association.

Cost of Ginning Service to Members

First money costs, profits, and out-of-pocket costs of ginning service to members are summarized in Table 32. The average first money cost

Table 32. First Money Costs, Profits, and Out-of-Pocket Costs of Ginning to Members (Per Bale)
Farmers' Cooperative Gin Association of Mabank

Year	First Money Cost				Net Profit	Out-of-Pocket Costs	
	Gin Toll	Per Pattern B. & T.	Total	Relative Average 100.0		Net	Percentage of First Money Cost
1935	$4.59	$1.02	$5.61	98.9	$2.89	$2.72	48.5
1936	4.68	1.00	5.68	100.0	2.58	3.10	54.6
1937	4.40	1.25	5.65	100.0	3.13	2.52	44.6
1938	4.31	1.50	5.81	102.5	2.42	3.39	58.3
1939	4.44	1.25	5.69	100.3	2.87	2.82	49.6
1940	4.24	1.25	5.49	96.8	3.41	2.08	37.9
1941	4.43	1.50	5.93	104.6	2.36	3.57	60.2
Average	4.42	1.25	5.67	100.0	2.89	2.78	49.0

per bale for the seven-year period was $5.67 per bale. Out of every dollar members paid for ginning service, 78 cents was for ginning tolls and 22 cents for bagging and ties. On an average for the seven-year period, the out-of-pocket cost was but 49 per cent of the first money cost.

Costs and profits per bale are summarized in Table 33. Out of every dollar members paid for ginning service at cost, 80 cents was for the cost

Table 33. Costs and Profits of Operations (Per Bale)
Farmers' Cooperative Gin Association of Mabank

Year	Costs			Profits				Bales Ginned
	Ginning		B. & T.	Ginning	B. & T.	C/S	Total	
	Standard[1]	Actual						
1935	$3.54	$3.02	$0.67	$1.57	$0.35	$0.97	$2.89	1,925
1936	3.29	3.65	0.74	1.03	0.26	1.29	2.58	2,367
1937	2.93	2.97	0.80	1.43	0.45	1.25	3.13	3,508
1938	3.18	3.87	0.82	0.44	0.68	1.30	2.42	2,732
1939	2.95	3.07	0.85	1.37	0.40	1.10	2.87	3,477
1940	2.87	2.83	0.91	1.41	0.34	1.66	3.41	3,852
1941	4.08	5.03	1.11	−0.60	0.39	2.57	2.36	1,576
Average	$3.15	$3.34	$0.84	$1.08	$0.41	$1.40	$2.89	2,777

[1]According to equation for Electric Gins. Blackland Area. See Appendix B.

of operating the gin plant and 20 cents for the cost of bagging and ties. Out of every dollar of net profit earned from gin operations, 37 cents was derived from profits on ginning; 14 cents from profits on bagging and ties; and 49 cents from profits on cottonseed. Considering all sources of profit, the components of the profit dollar were: ginning, 32 cents; bagging and ties, 12 cents; cottonseed, 41 cents; cotton trading, 5 cents; and other activities, 10 cents.

Interest in Adding Second Gin Plant

An average of 2,777 bales for a 4/70 gin plant is a volume quite other than ordinary. Certain members of the Mabank association have been clamoring for a second plant. It is quite evident that these advocates of increased ginning capacity have not given considered thought to consequences of such expansion. To permit an analysis of what the results of a double plant might have been, let it be assumed that a double electric plant had been acquired in 1935 and that the investment in fixed assets from year to year would have been 80 per cent greater than that of the single plant. Let it be further assumed that the actual costs of operation of the double plant would have been of the same relative efficiency from year to year as for the single plant. In a situation of this nature, estimated standard costs of the double plant with a given investment and volume of ginning may be approximated by assuming a single plant of one-half the given investment and volume. Costs per bale thus estimated would apply to the double plant with the given investment and volume of ginning.

Assuming the same relative efficiency, the actual cost of the double plant at a volume of 2,777 bales would have been $4.43 a bale. Thus the average net profit with a gin income of $6.23 a bale would have been $4,999. While the total net profits of the double plant would have been but 62 per cent as great as those of the single plant, the investment of the double plant would have been greater by 80 per cent than that of the single plant. Thus the net returns of 49 per cent on the investment in the single plant would have dropped to 17 per cent on the investment in the double plant. The average profit of two seasons have been sufficient to pay out the investment in the single plant; the average profit of six seasons would be required to pay out the investment in the double plant.

To earn a net profit of $2.89 per bale, the same as that of the single plant at a volume of 2,777 bales, the double plant would have needed a volume of about 4,594 bales, an increase of 65 per cent. To earn a return of 49 per cent on the investment, the double plant would have needed a volume of about 4,870 bales, an increase of 75 per cent.

Returns on the Investment

Annual net profits on ginning operations expressed as returns on the investment in fixed assets are reported in Table 34. The average return was 49 per cent; the lowest return, 20 per cent, was realized in 1941-42; the highest return, 73 per cent, was realized in 1940-41. On an average, the investment per bale of annual ginnings was $5.90. Thus the pro rata share of a 5-bale member was but $30, an exceedingly low investment.

The sources of all funds acquired by the Mabank cooperative and the disposition made of those funds are summarized in Table 35. Eighty-

Table 34. Returns on the Capital Invested in Fixed Assets
Farmers' Cooperative Gin Association of Mabank

Year	Cost of Fixed Assets	Net Profits	Returns on Investment	Investment Per Bale Ginned
1935	$13,090	$ 5,564	42.5%	$ 6.80
1936	14,175	6,101	43.0	5.99
1937	16,742	10,971	65.5	4.77
1938	16,742	6,617	39.5	6.13
1939	17,476	10,007	57.3	5.03
1940	17,895	13,139	73.4	4.65
1941	18,662	3,719	19.9	11.84
Average	$16,397	$8,017	48.9%	$5.90

Table 35. Analysis of Funds
Farmers' Cooperative Gin Association of Mabank

		Dollars	Percentage of Total
Sources of Funds:			
Net Profits after Depreciation		65,767	80.6
Provisions for Depreciation (not involving cash)		10,532	12.9
Surplus Correction		30	0.0
Decrease in Investments		130	0.2
Collections of Stock Notes		2,799	3.4
Increase in Invested Capital		2,351	2.9
Total		81,609	100.0
Disposition of Funds:			
To Increase Working Capital		15,609	19.1
To Increase Permanent Assets		6,053	7.4
Paid on Mortgage		13,220	16.2
Prepaid Insurance		307	0.4
Total Used in Operations		35,189	43.1
Paid in Dividends:			
Paid on Stock	$ 4,749		
Paid on Patronage	41,671	46,420	56.9
Total		81,609	100.0

one per cent of all funds has originated in the profits of the business. Payments on stock notes and investment in stock other than from profits, accounted for 6 per cent of all funds acquired. Forty-three per cent of all funds has been left in the business—19 per cent to increase working capital and 24 per cent to increase fixed capital. Of all funds acquired, 57 per cent has been paid as dividends on stock and patronage. Of all net profits earned, 71 per cent has been paid as dividends. Total net profits earned have averaged $3.28 per bale ginned and patronage dividends paid members have averaged $2.14 per bale. Profits left in the business to furnish operating and fixed capital have absorbed nine cents out of each dollar of first money cost.

Financing Policy

The financing program followed by the Mabank association is unique in some respects. It is a combination of stock purchase and profit financ-

ing. Each member in subscribing for stock, if not paid for in cash, signs a note providing for ten equal annual installments. Regardless of profits or losses of a season, the current installment on the note is due at the end of the season. In instances when patronage dividends were paid, a member who had paid up his installment in full, received his pro rata share of the dividends in cash; in case he had not paid up, the installment on the note had the first claim on his dividend.

In addition to equities in stock accumulated by members, the association has enhanced its net worth through profits left in the surplus account. As of February 28, 1942, the surplus account was $19,377. This was 172 per cent of the stock outstanding. Of this surplus, $10,531 was represented by the depreciation reserve. Thus the Mabank association is one of the very few cooperative gin associations which maintain their depreciation reserve intact.

Only one type of stock, common, is issued. With the heavy turnover of stockholders this is somewhat objectionable. The cooperative has had a total of 558 stockholders as of the end of the 1941-42 season. The stock of 165, or 30 per cent of the total, has been canceled. The reasons for retiring the stock of members are not always given in the records. The stock of 42, or 26 per cent of the members retired, was canceled because of nonpatronage. The association has a rule that a member failing to patronize his gin for two consecutive seasons is automatically discharged. Members moving away accounted for 37, or 23 per cent of the total. No reasons were given for 86 members who retired but most of them moved away.

Of the 393 stockholders listed in good standing as of February 26, 1942, 134 were inactive, or one-third of the total. Under the nonpatronage rule many of these stockholders will soon have their stock canceled. The liability of a stock cooperative to refund the common stock of a retired member not later than one year after withdrawal may prove burdensome especially when experiencing a heavy turnover of members. If the Mabank cooperative would use common stock of a nominal par value as the voting stock, only one share to the member and issue preferred stock revolved according to a definite schedule to represent the main part of the members' equity, the matter of handling retiring members would be greatly simplified.

The low investment in the gin plant, the high volume of ginning, and the rapid turnover in members of the Mabank association emphasize the desirability of shortening the period in revolving the stock. Sixty per cent of the present investment in fixed assets is about $12,000. On the basis of the average volume of ginning the past seven years, this amount of stock could be turned in about four years on a retain of one dollar a bale. The member moving away could have his share of common stock repaid at the time of retirement and his preferred stock repaid in the regular cycle of four years. The member failing to patronize his cooperative but who made no declaration as to his intentions could have his common stock retired at the end of two years and his pre-

ferred stock over the following four years. In such instances, six years would be required to complete the process of retiring a member.

Summarizing

The success of the Farmers' Cooperative Gin Association of Mabank should be of special concern to cotton growers in East Texas and in the southeastern part of the Cotton Belt. The Mabank association is demonstrating that an economic volume of ginning may be gained and maintained in a territory of small production per grower and with an over-capacity of gin plants. This association is proving that an adequate gin income may be maintained in spite of price-cutting competition. The success of the Mabank cooperative has been attained through a loyal membership and strong and vigorous management. In some respects, at least, the Mabank association is the outstanding success among cooperative gin associations in Texas.

FACTORS OF SUCCESS OR FAILURE

Less than 20 per cent of the gin associations of Texas are as successful as the four associations discussed above. The greater part of the gin associations are moderately successful; a considerable number are experiencing difficulties of various kinds; a few are on the very brink of bankruptcy both in financial affairs and in membership relations. The failure of a large percentage of gin associations to attain a degree of success desirable presents an opportunity for constructive action aimed at general and extensive improvement. This situation emphasizes the significance of an analysis of successful gins. To the extent that the less successful associations may profit from the experiences of the more successful associations, the cooperative gin movement may be strengthened.

As has been pointed out in the historical section of this Bulletin, failures of cooperative gins in Texas have been many. Improper organization and lack of experience with the cooperative type of enterprise were the principal causes for ill fortune among the Farmers' Alliance and Farmers' Union gins. Improvements in organization and a background of experience, however, have not eliminated reverses. Two gins out of every five established under the society act have failed; one gin out of every ten organized since 1934 has failed.

General Reasons for Failure

Many gin associations have started in Texas as a direct result of the success of nearby cooperatives. In many instances scant attention has been given to an analysis of the factors underlying the success of the associations emulated. Too often, the high hopes aroused during the organizational campaign have failed to materialize. The experiences of the successful associations should serve as a trustworthy guide to a group chancing the adventure of a new cooperative. But most im-

portant, the details of the pattern of success must be adapted to fit the exacting and peculiar situation of the organizing group.

A few gin associations have failed because too high a price has been paid for the gin plant. The price paid is not only a matter of agreement with the appraised value but also a matter of the volume attained. If the volume of ginning of the members be exceedingly small, even a low price may be too high. Members are most likely to pay too high a price in consumating a "gin sale." The owner in promoting a cooperative association to buy his plant naturally attempts to get the highest price possible. Particularly is this the case if the owner be heavily in debt, as then his only possible chance of maintaining an equity for himself is through a high price. Frequently as one of the stipulations of the "gin sale" the seller becomes the manager of the association until all indebtedness to him has been liquidated. Under such circumstances the manager, particularly if the salary agreed upon be favorable to him, may find his interest enhanced by a long period of liquidation. A lowering of gin charges or the paying of cash dividends lengthens the paying out period. Some of the gin associations have not been seriously handicapped in paying a price somewhat above a fair appraised value or in accepting the seller as the manager. In such instances, a large volume of ginning with an adequate gin income per bale has resulted in favorable profits. The appraising service of the Houston Bank for Cooperatives furnished to its clients and potential borrowers has greatly helped the gin associations in determining a fair value of the plants purchased.

A few associations in Texas have suffered as a result of having been organized by professional promoters. In the main, handicaps of two kinds have resulted. The organizational set-up was faulty; the fees paid the organizers were too high in light of the type of service offered. By and large, the cooperative gin movement in Texas has been quite free of the professional promoter.

Competition among cooperative gins, in a few instances, has led to difficulties and even to failures. The rival associations may be located at the same gin point or at neighboring points. The symbol of competition seems to be crystallized in the patronage dividend. At times various forms of manipulation have been resorted to as the means of increasing the dividend above that of the rival. For instance, one association shortweighted its members on the cottonseed purchased. Thus having more pounds to sell than purchased, large profits were realized on the cottonseed handled. This was reflected in the high patronage dividends paid the members at the end of the season. The association which may be slow in paying off its indebtedness and hence tardy in paying cash dividends may find its members deserting to the cooperative which is paid out and in position to pay cash dividends. Especially unhappy is the lot of a weak cooperative gin association which may find itself located between two strong dividend paying associations.

Management as a Factor of Success or Failure

Competent management is the mainspring of a successful cooperative association. One of the most important contributions of an able manager is that of creating and maintaining of membership interest in the affairs of the association. A successful association requires complete and harmonious cooperation between management and members. A sound financial policy involves not only expertness on the part of the management but also a recognition on the part of the members that they must meet the financial needs of their association either through cash investments or through profits left in the business.

A large percentage of the cooperative gins in Texas could profit greatly by an increased volume of ginning. The manager and leaders have both an opportunity and a responsibility in promoting greater support of their cooperative. The magic of increasing volume operates in two directions: increasing volume decreases the cost per bale thereby increasing the profit per bale; increasing volume decreases the investment per bale in the gin plant. Thus in terms of profit financing, with increasing volume: the member has an increasing profit with which to pay his share of the investment; the member has a decreasing pro rata share in the investment.

Strong and competent management is essential to the success of any and all cooperative gin associations. But the manager must operate in a truly democratic fashion. Some managers, who judged by the balance sheet and operating statement may be highly successful, seem to assume that so long as they produce results the members are to ask no questions. Some managers even go so far as to take the stand that the less they tell the members about the affairs of their association the better. A sound cooperative cannot be developed on such a philosophy. In the very nature of a cooperative organization, the final responsibility must rest on the individual members. The principles of self-help and self-rule cannot be abrogated. Teamwork is required among members, the board of directors, and the manager.

Control Over Expenses

Members quite generally demand services that only efficient gin associations can furnish. If the manager is lax and careless in the control of expenses he may not only be unable to give the service members demand but also be in danger of jeopardizing the profits of the season.

Most members are proud and appreciative of an efficient organization. At the end of the season they should be interested in the total profit, or loss, to the association as well as in their own pro rata share of the profit, or loss. The management should furnish the members with a detailed analysis of the business for the season which explains the profit, or the loss. If expenses are exorbitant the morale of the members may be weakened and the members may lose interest. To keep the cooperative

highly successful, operations must be successful; to keep operations successful the manager must be ever alert to keep expenses under control.

Control Over Gin Charges

Many gins have failed because of an inadequate gin income per bale. This may result either from an insistence on the part of the members on a low first money cost or from competition with other gins for patronage. In too many instances, members focus their attention on the charge and give little or no thought to the actual cost of ginning. If the gin income per bale sinks too low, net profits may become most disappointing even with a large volume of ginning. With a large volume of ginning and low costs, the profit may still be too low to pay out the gin plant within a reasonable time if profit financing be followed. Thus the life of the association may be placed in jeopardy.

If a cooperative does not drop its charge in conformity with competition, the grave danger arises of desertion by members to take advantage of the first money cost exacted by the competing gins. The immediate savings may seem too alluring to many members to be resisted. The first deserting member may set the style for others to follow. The volume lost because of non-delivery may become so large as to cause failure.

The gin income per bale may suffer because the cotton is bought from the patrons at a price above the market. Cooperatives overpay for cotton either to increase the volume above normal or to maintain the volume at normal.[15] Estimates of increases in volume are usually too optimistic. In most instances the cooperative overpaying for cotton has competitors following the same practice. The net result is a relative position as before as to patronage appeal but with depleted profits for all gins. The manager of a cooperative gin has a heavy responsibility in convincing his members of the folly of reducing charges to too low levels or of overpaying for cotton purchased from patrons.

Personal Relations of Gin Manager

Of greatest importance, perhaps, the manager must attract patronage. This means that he must capture and hold secure the confidence and good-will of the members. Unless the member can be shown h's patronage is sought he can usually find some reason for taking his cotton elsewhere. The manager must be courteous and fair in his treatment of all members. Favoritism to individual members or groups of members usually destroys membership morale.

The manager should have a pleasing personal relationship with members of the board of directors. In some instances the manager has shown favoritism to some of the more influential members of the board. This may take the form of a premium price paid for the cotton of the favored

[15] Bulletin 606, Texas Agricultural Experiment Station. pp. 52-55.

members. In such cases as these, the members not favored may feel resentful causing a drift towards a factional split in the board.

Occasionally managers of Texas cooperative gins have been chosen largely because of being related to many members of the association. The assumption seems to be that such a choice insures a large volume of ginning. As a rule a manager with a large relationship as his chief qualification has not proved very satisfactory.

Manager Supervising Good Records

In a cooperative the keeping of good records is a prime necessity. The records must be detailed so as to show contributions to the business made by each member and non-member such as bales ginned, cottonseed left with the gin, cotton bought, and equities owned in the gin. Records of expenses should be itemized in detail and prorated precisely to the various departments so as to facilitate the computation of costs and profits by departments with reasonable accuracy. An equitable distribution of patronage dividends to the members requires records to show the contributions made by the members to the various departments of the business.

The gin manager must not only make certain that the books are kept currently in proper form but he must also make certain that all pertinent information reaches the bookkeeper. A filing space should be provided in which to keep all canceled and returned checks, duplicate deposit slips, all invoices and all statements made by creditors. In most instances cooperative associations use practicing public accountants in making financial statements at the close of the ginning season. Unless the books have been properly kept and all records systematically filed, the duties of the auditor may be changed from that of verifying records to that of preparing records. If the auditor must also prepare the records, the cost of the auditing service may be greatly increased because of the greater length of time needed in making the audit.

Adequate Control on Credit

Many cooperative gin associations have taken on side line business. In selling supplies to members the demand for the privilege of buying on credit becomes almost irresistible. The minutes of many of the gin associations reveal that the boards of directors have gone on record with striking regularity to the effect that only cash sales be permitted. The fact that such resolutions are repeated is positive proof of the difficulties encountered in attempts to enforce strict cash sales. An association, in permitting credit business, places great responsibility upon the manager in that wise control becomes essential. The manager who fixes his attention on large sales may accumulate accounts receivable to disatrous proportions. One of the Society gins in the Low Plains Area after operating for 15 years was thrown into bankruptcy by over-extension of credit in its filling station and farm machinery sales.

The Danevang Farmers' Cooperative Society permits credit sales with these restrictions: credit is granted for a maximum period of 30 days; credit is granted not to exceed $100. If the credit sales to a member does not reach $100 within the time limit, the 30-day rule is applied; if the credit sales to a member amounts to $100 before the time limit has been reached, the $100 rule is applied.

Profits before being assigned to definite purposes scarcely ever are represented by cash alone. In many instances profits are tied up in inventories and receivables. If these receivables are allowed to become delinquent and carried over from year to year they eventually become worthless and thus profits are wasted. At present no gin allowing profits to be wasted can maintain a place among the successful cooperative associations.

Business Requisites of Success

The three oustanding requisites involved in operating a cooperative gin as a successful business are: an economic volume of ginning; operations at a reasonable efficiency; and an adequate gin income per bale.

Strictly from the business standpoint, the essential interest of a member in his association is in low cost ginning. If cooperative associations do not reduce costs below those of the general run of competing gins through a larger than average volume, no sound argument can be advanced for organizing cooperatives.

Economic Volume of Ginning

In more recent years the Houston Bank for Cooperatives in emphasizing the necessity of large volume for its gin borrowers has exercised a significant influence in raising the general level of successful operations. Even with this emphasis a considerable number of gins financed by the Houston Bank has failed to attain a desirable volume. Great care needs to be taken by the organizing committee in estimating the potential volume of the members. The volume of a single year is not of utmost importance. It is the average volume over a period of years that counts. Organizers tend to be too optimistic as to yields. An examination of the records of the organizational period of a considerable number of gin associations shows that rather frequently the position is taken that the yield data for the county of the Agricultural Adjustment Administration are too low for the particular sections included in the membership. Most associations place too little emphasis on increasing their volume through adding new members from year to year.

Special care needs to be taken in organizing an association in an area of low production. Whether a gin in such an area be isolated or subject to competition from neighboring gins is also an important consideration. In either event members should make every effort to obtain a small gin plant with a low investment. This would insure a low fixed cost which is so essential in keeping costs under control with a small volume.

Crop failures the first season or two of the new association are most disturbing. This is especially so if profit financing is followed. The Houston Bank for Cooperatives, however, has exercised wise discretion in making allowances for crop failures that come with considerable regularity especially in the Plains Area of the State.

Practically, the absolute minimum on which a cooperative gin association could operate would be its "break even" volume. But with a "break even" volume the gin income per bale is most significant. For instance, a steam gin of average efficiency and an investment of $15,000 in the Blackland Area has a "break even" volume of 1,408 bales at a gin income of $4.00 a bale and a "break even" volume of 741 bales at a gin income of $6.00 a bale. In the former case, a 10-bale member would have a first money cost and a net out-of-pocket cost of $40; and in the latter case, of $60. Furthermore, at the "break even" volume no profit financing would be possible. At the larger volume a 10-bale member would have a pro rata share of $107 in financing the gin investment and at the lower volume of $202.

Efficiency of Operations

The cost of ginning per bale has no definite meaning unless related to a standard as the average cost. That is, a cost of $10 a bale may not be "high" in a given circumstance while a cost of $4.00 a bale may be "high" in another. For instance, a $15,000 steam gin of average efficiency in the Blackland Area would have a cost of $12 a bale at a volume of 306 bales and a cost of $3 a bale at a volume of 2,561 bales. If such a gin had an actual cost of $10 a bale at a volume of 306 bales, its efficiency would be 20 per cent greater than the average; if such a gin had an actual cost of $4 a bale at a volume of 2,561 bales, its efficiency would be 33 per cent below the average.

A gin with a cost greater than the average needs added volume to attain the profit of a gin of average efficiency. For instance, a gin of average efficiency and a gin income of $6 a bale realizes a profit of $4,543 on a volume of 1,817 bales. If this gin should have a cost 10 per cent greater than the average and a gin income of $6 a bale, a volume of 1,975 bales, or an increase of 9 per cent, would be required to realize this same profit. But this added volume is not an entirely satisfactory substitute for efficiency. If this gin at the larger volume operated at average efficiency its net profit would be $5,209, an increase of 15 per cent.

Adequate Gin Income Per Bale

The prevalence of profit financing among cooperative gin associations in Texas places great emphasis on the gin income per bale. Obviously, the gin income must be greater than the cost if profits are to be available for financing the gin plant. Only as the members pay a first money cost for ginning service above the cost of operating the gin plant and

the cost of bagging and ties can there be profits in these departments of the business. These profits are in the nature of over-advances on the part of the members. Only as the gin association pays its members less than the oil mill price for their cottonseed can there be profits in this department of the business. These profits are in the nature of a retain.

Theoretically the charge made for ginning service could be maintained at the cost level of the service. Fluctuations in costs because of unpredictable variations both in the volume of ginning and in the relative efficiency of operation preclude a preseasonal estimate of costs approaching actual costs. To delay collecting gin charges until the end of the season when costs can be determined would be most undesirable. Under such program the gin association would have the problem of financing current expenses. The collection of gin charges from the patrons at the end of the season would introduce many difficulties. The easiest time to collect the charges from members is when they obtain the service. The better system is to charge the going rate throughout the season as members obtain the service. In charging the going rate the cooperative takes its place in the competitive field with the least disturbance to itself and its private competitors. The members obtain ginning service at actual cost. The excess of the gin income over the cost of the service accumulates to the credit of the members and may be finally realized either in the form of increased equities in the association or as cash dividends.

Every successful cooperative gin in Texas has had, without exception, a large volume of ginning. Efficiency greater than average and gin income greater than average as the means of compensating for the paralyzing effects of low volume of ginning fail as alternatives for large volume. There is no substitute for large volume.

Leaders of the successful cooperative gin association in Texas carry a heavy load of responsibility to their own members. But these leaders also carry a heavy load of responsibility to the cooperative gin movement in general. Each successful gin association should realize that other groups will view its type of organization and program of operation as models to be followed. If such an association has certain features in its program that apply only to very specific circumstances and that would not apply rather universally, such association loses greatly in prestige as an example to be emulated. Each strong cooperative gin association in Texas should feel that a worthwhile contribution may be made by so shaping its form of organization and its financial and operating programs that other cooperative groups may copy to their own gain and advantage.

SUMMARY

The successful cooperative gins of Texas today are based on the experiences gained from thirty to forty years of experimentation with farmers' gins.

The Farmers' Alliance and Farmers' Union gins failed largely because of being organized on the farmer stock plan. Farmers shared in the profits of such gins according to capital invested and not according to the patronage furnished. Of the six Farmers' Union gins still active, four were organized originally as cooperatives, or with distinct cooperative features.

The Society gins organized in 1920, and later, ushered in the cooperative gin as a successful going concern in Texas. These gins succeeded because members benefited from their patronage relations and not from their investment relations to the association. Thus individuals with money to invest never had the opportunity of gaining control and then converting the business into one distributing profits on the investment basis. Of 133 Society gins organized in Texas, 40 per cent have failed; 44 per cent continue as originally organized; and 16 per cent have been reorganized under the Cooperative Marketing Act.

Since the organization of the Houston Bank for Cooperatives in 1934, the number of active cooperative gins in Texas has increased five-fold. The cooperative bank has made credit available at a reasonable cost and under terms suited to the needs of farmer associations. The bank has helped place cooperative gins on a sound operating basis by insisting on a substantial volume of ginning and on the adoption of acceptable business practices. From about 78 cooperative gins in 1933, the number had grown to about 375 in 1942.

The Childress Farmers' Cooperative Society ginned 123,000 bales during the twenty-year period 1922-23 to 1941-42. Net profits of $420,000 were realized and patronage dividends of $372,000 were distributed to members. Of each dollar members paid for ginning service, the cost of operating the gin plant absorbed but 49 cents; seven cents of the dollar financed the gin plant with an investment reaching $97,000 in 1942. Thus of each dollar members paid for ginning service, 44 cents was returned as patronage dividends.

For the 15-year period 1927-28 to 1941-42, the average cost of ginning of the Childress association was $3.93 a bale. Costs were about 6 per cent higher than the average standard cost of multi-battery gins in the Plains Area.

All the capital of the Childress cooperative was obtained from profits left in the business. As profits were appropriated to pay for the original plant and later additions no patronage equities were established for the members. Equities of members are equal but unassigned. Thus equities are neither salable nor transferable. Active membership depends upon the payment of the annual membership fee of one dollar.

Membership may be gained too easily in the Childress society. If equities were assigned on ginnings of the past seven seasons and then rotated about every seven years on a retain per bale ginned, the new members would be required to carry their share of the financial load.

Patronage in the Childress cooperative over a period of seasons has tended to increase relatively during years of heavy production and to

decrease relatively during years of short production. A reserve to absorb losses of the short crop seasons should be effective in righting this tendency. With such a reserve even in the loss years profits on bagging and ties and cottonseed would be available for dividend payments. This assurance of cash dividends should be attractive to the patrons.

The Danevang Farmers' Cooperative Society operates in a territory settled by a group of Danes bent upon developing a community to serve their needs. The hardships encountered in the early years of the settlement had much to do with the fostering and acceptance of the cooperative philosophy.

The Danevang group had considerable experience in various types of cooperative effort in the mutual insurance company organized in 1897, the telephone company organized in 1913, and the supply business of the Danevang association organized in 1920 before building a gin in 1927.

Many cooperative gin associations in Texas are also in the supply business. The usual procedure is to begin with the gin and later to add the side line business. In Danevang the supply business was developed first and the gin added later.

Over the 15-year period 1927-28 to 1941-42, the Danevang society ginned 54,000 bales of cotton. Net profits of $155,000 were realized in the ginning business and patronage dividends of $141,000 were distributed to members. Of each dollar members paid for ginning service, the cost of operating the gin plant absorbed 46 cents; 5 cents of the dollar financed the gin plant. Thus of each dollar members paid for ginning service, 49 cents was returned as patronage dividends.

The average cost of the 13-year period 1929-30 to 1941-42 was $2.49 a bale. The average standard cost was $2.95 a bale. Thus the Danevang society had a relative cost of but 84 per cent of the standard and a per bale cost of 46 cents less than the standard.

During the past five years supply purchases averaged $559 per member annually. Cash dividends averaged $43 per member. Savings on the purchase price below retail averaged $13 per member. The average savings to members were $56. Thus members of the Danevang cooperative increased the purchasing power of the dollar by 10 cents through their supply business.

The investment in the gin plant of the Danevang cooperative was financed almost in full from gin profits left in the business. At the time the gin plant was built, the association borrowed $20,400 from its members. These loans averaged $314 for 38 members and $530 for 16 members. All these loans were repaid by the end of the first two ginning seasons.

In no other cooperative gin association in Texas are membership meetings held so frequently as in the Danevang cooperative. A wide range of business matters that are taken care of by the boards of directors of other associations are passed upon by the members in Danevang.

During the past 10 years annual profits of the Danevang association averaged $15,400. An average annual dividend of $109 was paid the

members. Thus the savings of the cooperative business was distributed to a relatively large group adding to the purchasing power of many farm families.

The members of the Farmers Cooperative Association No. 1 of Tahoka are confined to Lynn County. Thus the members are not scattered over several counties as with the Childress society. Lynn County has eight active cooperative gin associations at present. The territory of the members of the Tahoka association is shared in whole, or in part, by members of several other cooperative gins. Thus the members do not form a compact area as with the Danevang cooperative.

The Tahoka group is placing great stress on its annual meeting in April. The morning meeting is usually devoted to short speeches by visitors. Lunch is served at noon and as many as 800 members and visitors have been served. The afternoon meeting is given over to the business matters of the association.

During the 12-year period 1930-31 to 1941-42, the Tahoka association ginned 44,000 bales of cotton. Net profits of $101,000 were earned. Cash patronage dividends distributed to members totaled $75,000. Of each dollar members paid for ginning service, the cost of operating the gin plant absorbed 63 cents. The financing of the gin plant required 10 cents out of the dollar. Of each dollar the members paid for ginning service, 27 cents was returned in the form of cash dividends.

The Tahoka organization has made notable progress in its educational activities. A small mimeographed house organ, the COOP-O-GRAM is issued monthly. The annual report prepared for the members is a fund of information concerning the many activities of the association.

The side line business of the Tahoka cooperative has become a very significant part of business activities. Gross sales reached a total of $76,000 in 1941. The past four years gross margins averaged 17.5 per cent and net margins 5.8 per cent. Cash dividends of 5 per cent on members' purchases are paid quarterly.

A stock cooperative with a heavy turnover of members may have a vexing problem in taking up the stock of the retired members. The Tahoka association has made much progress in solving this problem. The 10 dollar share of voting, or membership stock, is taken up and preferred stock issued instead. All the preferred stock is revolved which means that in due time the equities of the retiring members will be liquidated.

During the seven-year period 1935-36 to 1941-42, The Farmers' Cooperative Gin Association of Mabank ginned an average volume of 2,777 bales. This is a remarkable record for a cooperative with a 4/70 gin plant in an area of very low production per grower, a high percentage of tenancy, a decided over-capacity of ginning facilities, and a low gin income per bale.

The ability of the Mabank association to maintain delivery of its members almost intact the first season even though charging 30 cents per cwt. of seed cotton for ginning service while competing gins were

charging 20 cents was largely responsible for the success of this association the first season and following seasons.

On the total volume of 19,000 bales, gin profits of $56,000 were earned. The dollar members spent for ginning service was divided as follows: cost of operating the gin, 49 cents; financing of the gin plant, nine cents; and cash dividends distributed to members, 42 cents.

During the three seasons 1939 to 1941, 30 per cent of the volume of ginning of the Mabank cooperative was delivered by non-member patrons. If the volume of those seasons had been 30 per cent less, assuming the same relative efficiency, average annual net profits would have dropped from $8,017 to $4,643.

The Mabank association issues but one type of stock, common. As this association loses many members each year, the problem of how to deal with the stock of the retiring members arises. If the association would change its stock structure so that one share of common of nominal value would be sold to each member and the rest of the equity evidenced in preferred stock revolved according to a definite schedule, the matter of what to do with the stock of the retiring member would be largely solved.

Less than 20 per cent of the gin associations of Texas are as successful as the four associations discussed in this Bulletin. The failure of a large percentage of gin associations to attain a degree of success desirable presents an opportunity for constructive action aimed at general and extensive improvement.

Competition among cooperative gins, in a few instances, has led to difficulties and even to failure. The relative success of the rival associations is usually measured in terms of patronage dividends paid.

Strong and competent management is essential to the success of any and all cooperative gin associations. But the manager must operate in a truly democratic fashion. In the very nature of a cooperative organization, the final responsibility must rest on the individual members. The principles of self-help and self-rule cannot be abrogated. Teamwork is required among members, the board of directors, and the manager.

If expenses are exorbitant the morale of the members may be weakened and the members may lose interest. To keep the cooperative highly successful, operations must be successful; to keep operations successful the manager must be ever alert to keep expenses under control.

The manager must attract patronage. This means that he must capture and hold secure the confidence and good-will of the members. The manager must be courteous and fair in his treatment of all members.

In a cooperative the keeping of good records is a prime necessity. The records must be detailed so as to show contributions to the business made by each member and non-member. An equitable distribution of patronage dividends to the members requires records to show the contributions made by the members to the various departments of the business.

An association, in permitting credit business, places great responsibility upon the manager in that wise control becomes essential. Profits before being assigned to definite purposes scarcely ever are represented by cash alone. In many instances profits are tied up in inventories and receivables. If these receivables are allowed to become worthless, profits are wasted. At present no gin allowing profits to be wasted can maintain a place among the successful cooperative associations.

The three outstanding requisites involved in operating a cooperative gin as a successful business are: an economic volume of ginning; operations at a reasonable efficiency; and an adequate gin income per bale.

Every successful cooperative gin in Texas has had, without exception, a large volume of ginning. Efficiency greater than average and gin income greater than average as the means of compensating for the paralyzing effects of low volume of ginning fail as alternatives for large volume. There is no substitute for large volume.

The leaders of successful cooperative gin association in Texas carry a heavy load of responsibility both to their members and to the cooperative gins in general. The successful gins should strive to organize their financial structure and their operating procedure in such fashion that other cooperatives in following their example could do so to their own profit and advantage.

APPENDIX A

Articles of Incorporation and By-Laws of Early Farmers' Gins

DEXTER GIN AND MILL COOPERATIVE ASSN. Oct. 7, 1889.
Plan of Dexter Gin & Mill Cooperative Association

1st. We recommend that the Alliance of Dexter establish a cooperative gin & mill cooperative association with a capital stock of not less than three thousand dollars ($3,000) to be raised by shares of twenty-five dollars ($25.00) each to be taken by members of the Farmers Alliance.

2nd. Said gin & mill shall be located in the town of Dexter, Cooke County, Texas.

3rd. The business of said gin & mill cooperative association shall be to operate a general gin and milling business.

4th. It shall be conducted by a member of the Farmers Alliance to be elected by the Board of Directors said Board to be share holders.

5th. That there be elected by the share holders a Board of Directors consisting of five active business members of the Alliance, whose duty it shall be to examine the books relating to gin & mill and make a report to the shareholders semi-annually in March and September or at any called meeting that the business may demand.

6th. This cooperative Association shall exist for a term of fifty years.

7th. The superintendent shall have power with the advice of the Board of Directors to employ a sufficient number of hands to do the work of the association but the superintendent shall have power to discharge employees at his discretion.

8th. No person shall be connected in any way with said gin & mill who is not a member of the Farmers Alliance in good standing.

9th. The superintendent and board of directors shall have power to make arrangements for defraying all incidental expenses connected with said gin & mill.

10th. At the close of each year if a profit has accrued it shall be divided among the stockholders according to the share of each.

11th. No persons interest in said gin & mill shall exceed two hundred dollars ($200) and no person shall be allowed to withdraw his stock before the expiration of five years after which time he may withdraw his stock provided he gives ninety days notice.

12th. The superintendent shall be required to execute a bond to the board of directors and their successors in office for double the amount liable to pass through his hands annually.

13th. Each shareholder shall have one vote on all questions coming before the association regardless of stock taken. . . .

Buda Milling and Ginning Association of the Farmer's Alliance, Feb. 6, 1892.

Article I

The name of this corporation shall be the Buda Milling and Ginning Association of the Farmer's Alliance.

Article II

This corporation is formed and created for the purpose of owning and managing a milling and ginning establishment upon a cooperative plan, of buying and selling such real estate and other property as may be necessary to promote the object of its creation and of transacting any and all kinds of business incident or appertaining thereto for the mutual profit and benefit of the stockholders and patrons who are members of the order of the Farmer's Alliance.

Article VI

The capital stock of this corporation shall be twenty thousand dollars divided into shares of five dollars each which shall be transferable but cannot be withdrawn.

Farmers Union Gin Co. of Chillicothe, July 2, 1906.

Art. 1. The name of this corporation shall be "The Farmers Union Gin Company."

Art. 2. This corporation is formed for the purpose of constructing purchasing, operating and maintaining, and doing a general gin, mill, grain elevator and warehouse business, and for the purpose of buying, selling and storing grain and other products and commodities by grain elevators and public warehouse companies.

Art. 3. The principal office and place of business of this corporation shall be at Chillicothe, Hardeman County, Texas.

Art. 4. Said Corporation shall exist for a term of twenty years.
Art. 5. The number of the Directors of this corporation shall be five: and those appointed for the first year are as follows, towit: W. W. Cole, Chillicothe, Texas; J. S. Haynes, Chillicothe, Texas; J. L. Potts, Chillicothe. Texas; J W. Austing, Chillicothe, Texas; and S. E. Swim, Jr., Chillicothe, Texas.
Art. 6. The Capital Stock of this corporation shall be twelve thousand dollars to be divided into twelve hundred shares of ten dollars each.

Certificate of Dissolution, June 26, 1909 carried 61 names.

CONSTITUTION AND BY LAWS
FARMERS DISTRICT UNION GIN ASSOCIATION
RULE, HASKELL COUNTY, TEXAS

Article 1: **DECLARATION OF PURPOSE**
The purpose of this association shall be the ginning of cotton; the buying and selling of cotton; the buying and selling of cotton seed for the benefit of the stockholders of the association.

Article 2: **NAME OF ASSOCIATION**
The name of this association shall be the "**FARMERS DISTRICT UNION GIN ASSOCIATION.**"

Article 3: **PLACE OF BUSINESS**
The principal place of business of this association shall be at Rule in Haskell County, Texas.

Article 4: **CAPITAL STOCK**
The capital stock of this association shall be fifteen thousand dollars ($15,000.00) divided into six hundred shares, (600), of the par value of twenty-five dollars ($25) each.

Article 5: **MEMBERSHIP**
Any cotton farmer may become a member of this association to the amount of one share of its capital stock . . .
When the books of the association show a cotton farmer has patronized the gin to the amount of Twenty-five dollars, ($25.00) he shall be issued one paid up share of the capital stock of the "Farmers' District Union Gin Association" which shall entitle him to full membership in the association.

Article 6: **BOARD OF DIRECTORS**
The business of this association shall be conducted by a Board of Directors consisting of five members.
The officers of this association shall be a President, Vice-President, and a Secretary-Treasurer.
All the officers of this association shall be elected by ballot of the stockholders at their annual meeting, which shall be held on the first Saturday in April, of every year.

Article 7: **DUTIES AND POWERS OF OFFICERS**
The **PRESIDENT** shall preside at all regular and call meetings of the Association.
The **PRESIDENT** shall explain, or cause to be explained, the object of such meetings; supervise all elections and declare the results; order all elections when so instructed by a majority of the **BOARD OF DIRECTORS**, or Ten per cent, (10%) of the Stockholders.
The **PRESIDENT** shall approve or veto all sales, purchases, contracts, or other business entered into by the **BOARD OF DIRECTORS** whereby the association is made a party to such sale, purchase, contract, or other business transaction.
In the event any measure is vetoed by the **PRESIDENT** by a written petition, signed by three (3) of the directors, the **PRESIDENT** shall call a meeting of the stockholders, to whom such vetoed measure shall be referred.
The action of the stockholder, when taken by a ballot, shall be final from which there is no appeal.
The **PRESIDENT** shall act as an ex-officio director, having the right to sit with and advice the **BOARD OF DIRECTORS** but shall not be allowed to vote on any measure being discussed or acted upon by that body.
The **VICE-PRESIDENT** shall preside in the absence of the **PRESIDENT** and perform all duties incumbent upon the **PRESIDENT**.
The **SECRETARY-TREASURER** shall keep a record of the minutes of the meetings of the **BOARD OF DIRECTORS**; keep a record of all business transacted at all regular and call meetings; keep a correct file of all reports, statements or other documents turned over to the **BOARD OF DIRECTORS** by the bookkeeper of the Association.

Article 8: **VOTING**

All elections of officers and other matters requiring an expression of the stockholders shall be determined by ballot.

Every member of the association shall be entitled to, but one vote on any measure before the stockholders.

A member may vote by proxy when such proxy presents to the **PRESIDENT** or the presiding officer, a written authority for so doing.

Article 9: **ANNUAL MEETINGS**

The annual meetings of the stockholders of the "**FARMERS DISTRICT UNION GIN ASSOCIATION**" shall be held at Rule, in Haskell County, Texas, on the First Saturday in April, of every year.

At the annual meeting of the stockholders a report will be made to them of the season's operations, which shall show the income and expenses of the association; the financial status of the association; and the dividend, per bale of cotton ginned, which the **BOARD OF DIRECTORS** have declared.

Article 10: **DIVIDENDS AND PROFITS**

The **BOARD OF DIRECTORS** shall declare no dividend until all debts of the association have been fully paid from the funds of the association. When it is shown by the profit and loss statement that a net profit has resulted from the operations of the gin, and all debts of the association have been paid or provided for, the **BOARD OF DIRECTORS** shall, before declaring any dividend, reserve ten percent (10%) of the net profits for the making necessary repairs to the machinery and buildings, prior to the beginning of the next season's operations.

The dividend shall be paid the stockholders on the basis of the number of bales of cotton ginned by the stockholders of the association and on no other basis.

All the profits of this association, excepting the ten per cent (10%) mentioned above, shall belong to the stockholders of this association who ginned their cotton at this gin, and shall be paid to them on the basis of the number of bales of cotton ginned by each, from the funds on deposit to the credit of the association.

Adopted April 26, 1913.

APPENDIX B

Equations for Estimating Total Costs of Ginning (1)

Average Cost
Blackland Area

Steam Power	=	$1,730	+ $0.0930I	+ $1.78V	(2)
Diesel Power	=	2,198	+ 0.0887I	+ 1.37V	
Electric Power	=	2,089	+ 0.0592I	+ 2.05V	

High and Low Plains Area

Steam Power	=	$3,392	+ $0.0592I	+ $2.25V
Diesel Power	=	1,973	+ 0.1120I	+ 1.76V
Electric Power	=	1,528	+ 0.1122I	+ 2.42V
Large Gins	=	5,080	+ 0.1052I	+ 1.75V

Gulf Coast Area

Diesel Power	=	$1,711	+ $0.0957I	+ $1.99V
Electric Power	=	938	+ 0.0953I	+ 2.59V

All Texas

Average Cost	=	$2.035	+ $0.0879I	+ $1.91V

(1) Cost and profit of Ginning Cotton in Texas. Bulletin 606, p. 99.
(2) I—Investment in gin plant in dollars; V—Volume of ginning in bales.

APPENDIX C

Proposed Methods of Assigning Equities to Members of the Childress Farmers' Cooperative Society

by

T. L. McFarland, Former Office Manager,
Childress Farmers' Cooperative Society

First Choice

Series	Year	Bales Ginned	Rate Per Bale	Equity Assigned	Approximate Year of Retirement (1)
1	1922	1300	$2.70	$ 3510	1943
2	1923	2300	2.70	6210	1943 & 1944
3	1924	6737	2.70	18190	1944, 1945 & 1946
4	1930	1198	2.70	3335	1946
5	1932	10547	.10	1055	1946
6	1933	10871	.25	2718	1946 & 1947
7	1934	1278	2.70	3451	1947
8	1935	8965	1 00	8965	1947 & 1948
9	1936	2458	2.70	6637	1948 & 1949
10	1939	2461	2.70	6645	1949 & 1950

(1) Revolving the equities over a period of about seven years based on an annual volume of 6600 bales at $1.25 a bale; each year that the volume is greater than 6600 bales, the time of retirement will be hastened; each year that the volume is less than 6600 bales, the time of retirement will be retarded.

If complete records are not available for any of the first years, the number of bales ginned by patrons could be reasonably ascertained by sworn statements from said patrons.

The years 1932, 1933, and 1935, assign equities according to amounts paid to "Replacement Reserve Fund" those years.

True, the plant was paid for during the 1924 season, but without the patronage furnished in 1922 and 1923, the plant would very likely not have been in operation in 1924. And too, the years 1930, 1936, and 1939, being short years, many patrons deserted the association which caused loyal members to carry the burden of expenses during those years. Therefore it seems equitable that the loyal patrons should be rewarded for earnings denied them due largely to the non-support of a large number of farmers.

Second Choice

Series	Year	Bales Ginned	Rate Per Bale	Equity Assigned	Approximate Year of Retirement (1)
1	1930	1198	$1.50	$ 1797	1943
2	1932	10547	.10	1055	1943
3	1933	10871	.25	2718	1943
4	1934	1278	1.50	1917	1943
5	1935	8965	1.00	8965	1943 & 1944
6	1936	2458	1.50	3687	1944 & 1945
7	1939	2461	1.50	3692	1945
8	1940	5023	1.50	7535	1945 & 1946
9	1941	9722	1.50	14583	1946, 1947 & 1948
10	1942	8000	1.50	12000	1948, 1949 & 1950

(1) See footnote under First Choice above.

APPENDIX D

COOP-O-GRAM

Farmers Cooperative Association No. 1
Tahoka, Texas
December 1942 Vol. 7, No. 6

GLAD TIDINGS

This Season of the year should be a happy and joyous one for people everywhere. But Dictators with unholy ambitions have thrown the entire world into war, with misery and suffering for many. We are more fortunate in America than in many places, tho our sons and fathers are dying in all lands now. Those at home must put up a strong fight, working and praying for the end of wars. So don't lose hope that the Prince of Peace will again reign with glad tidings: "Peace on Earth, Good will towards men."

CONGRATULATIONS

Your Association has again paid out of debt, thanks to the patronage and loyalty of the membership. The Directors authorized payment of the balance of our notes last week, after they had discussed the financial reports and studied the general situation over. We have paid $19,450.00 this year, so you will have an idea about what the profits are at this time. A full audit will be made and reported in April.

The Directors also voted to pay a Station Dividend in January for purchases over the past 3 quarters—in cash too. So get all accounts current, in order that all may receive one of these checks. It will be the 10th or 15th of the month, before they will be made out.

Now about Accounts! We are not going on a 100% cash basis, but we must insist that all accounts be taken care of promptly during 1943, as we have to abide by the Regulations W of the Government. Please don't make the account embarrassing for us, or yourself. Let's talk it over, if you need help.

These Gin Plants, Gin Building and Lots, as well as the Station and Office and Trucks are yours—paid for—free of debt, from profits of the business you did here.

A BRIEF REPORT

We have ginned 6,481 bales of cotton up to this time and expect to reach 7,000. Under OPA regulations gins were allowed to increase their charges 5%, but that was so small that nearly all gins decided to charge as in 1941, which was 30 cents here. All repair items and labor were higher, yet the ginning operations will show profit, on account of the nice volume we received.

Cottonseed have been graded for the first time and OPA allowed a $3.00 margin to gins. However many of the early seed that cost us $50.00, did not bring much over $1.50 to $2.00 profit. Gins in the south part of the county had a higher grade of seed and therefore able to pay more for them; we tried to stay close to their prices and therefore had a smaller margin. But the average of the season will balance up the net profit, we hope, and show this department with a good report. Speculation or storage of seed is not allowed under regulations and many mills were not able to bid for our seed on account of this condition.

Bagging and ties have cost from $1.41 to $1.51, so with sale prices of only $1.80 you will know there is not much profit here. Most of the cotton has gone into the loan. But we have some on hand now that buyers at Lubbock will not take, saying they are out of the market.

The Station has shown an increase in sale over last year, with better profit. But under rationing we may have a lower volume. Storage barrels can hardly be found, so if you can use an underground tank, better install it now. See us about these. We have Inspectors to check your tires—have that done now. We also have a stock of war tires and farmers are eligigle for these.

COTTONSEED

As in the past, we have tried to save back some good planting seed for those customers who lost theirs, or failed to make a good crop. Some have already bought these seed, and taken them home. As the supply is limited, we urge that others who are going to need cottonseed, come at an early date for theirs; we want them off the ground and be able to clean up our seed piles.

Hi-Bred and Western Prolific are on hand now and we expect some Macha's Storm Proof soon.

A car load of Summerour's Hi-Bred will arrive anytime now. Over one-third of the car is booked, so if you want some of these, get your order in now. We expect to sell these as soon as possible, giving our customers first chance. But there is over $5,000.00 in a car of these seed, so we will want to get our money out of them as soon as possible. Nearby Coops will take them if we will sell to them. Act now.

We also have sacks of new Western Prolific seed bought; this is a little longer staple cotton and stays in the bur better. As the Government is urging longer staple for next year, farmers should improve as much as possible, Acala, DP&L and Stoneville are approved varieties for Texas.

Again, we urge you to make arrangements for your cottonseed in next 15 days.

STATION

The Station has a small stock of War Tires for sale: nearly all farmers are eligible for this tire, as the need arises. If your present tires cannot be re-capped or repaired, then you should apply for one of these tires. Consult one of our Inspectors, when in trouble. And do not wait until the last days of January to have inspection made on your tires, as called for in your application for A Ration book.

All oils and greases are coming in larger containers: it is necessary for us to have a barrel to replace any sold with oil. As for storage on your fuels, that is a tougher problem all the time. Farmers are eligible to buy underground tanks and right now we know where we can find them for you. With a small rotary pump over such a tank you would have a nice piece of equipment and save money too. Let us hear at once if interested. Save your grease buckets and return them here. You may have to bring them in for re-fills out of 400 pound drums, if the war lasts a long time. Batteries and spark plugs are still available—car jacks, grease guns and many items are hard to find. We have bought binder twine for next year. Anti-freeze has been a problem, but many are using our Bond without complaint. Others have had trouble and some damage. The Distributor and Manufacturer both claim this anti-freeze will not damage machinery in any way. We have endeavored to make proper settlement with those who have purchased and had trouble.

1943! COOP ALL THE WAY

Tahoka, Texas.
Apr. 24, 1940.

Dear Friends and Members,
Farmers Cooperative Association No. 1,
Tahoka, Texas.

It is with pleasure I have prepared a brief report on the activity and advancement of the Association since our meeting in April, 1939. It gives us all joy to know that we are members of an organization that is making progress and giving service in what it attempts to do. The new accounts and business that has come to the association the past year shows the confidence the people have in us. And the profits we have made and the increase in our Net Worth shows the usefulness of the association.

The Gin Plants, the New Office and Station are owned by the members less a mortgage held by the Houston Bank for Cooperatives. Your financial interest is evidenced by the stock you hold; the profits made by the organization stay right at home and aid you in providing better living conditions in your own home. As the Association pays out of debt, you will receive greater benefits, for the older stock will begin rotating and you will be receiving two classes of dividends: namely, Patronage and Revolving Stock.

Early in May the Board closed the deal on the Automatic Sprinkler System in the No. 2 Plant, thereby reducing the insurance rates, with a saving of about $725.00 per year. This represents the annual payment to the Sprinkler Company, the balance now being $4,350.00. After this amount is paid, that saving will go into our profits each year.

You will remember that we completed our new office and Station in April and opened for business at the new location on May 1st. Ever since that time our station business has been on the increase and it will show a 35% gain this year. Gasoline and other fuels are now selling cheaper than any time since we entered the business, but we continue to pay you a 5% dividend on your Station purchases. However, if prices should get too close, we know you will not expect a continuation of the dividend. Some new equipment was bought for the Station and new furniture placed in the office. The old office

building was moved to one of our vacant lots and improved for a residence in which one of the men lives.

The Board and Management strives to cut overhead and operating expenses as much as possible. We have found that we can haul our own cottonseed, the cotton we gin, the dirt and trash from the gins, our meal, our gasoline and other fuels and do miscellaneous hauling, cheaper than we can hire it done. Besides being cheaper, it is more satisfactory in other ways. The reports will show the savings made and they have been paid to you in dividends.

Some comments or propaganda reached the Board that some folks thought the Directors were being shown favors above others. In order to meet such loose talk, they adopted a resolution that the Manager shall not employ any of his relatives or anyone close akin to Board members. The Directors give liberally of their time to the work of the Association. For regularly monthly meetings, they receive $2.00 for their time and travel expense, many special short calls are made, for which they receive no compensation. I know you appreciate their work; tell them so.

The Board has found that a well informed membership is one of the greatest assets we can have, so has encouraged the publication of our "Coop-O-Gram" to give you the facts about our organization. Your suggestion as to what you would like for it to contain will be appreciated. This Association is now sponsoring a Cooperative Council for the gins of this area and will hold a second meeting here on April 29th. We are all working with the Coop Mill and other leaders for the Cooperative School to be held on June 24, 25, and 26th at Texas Tech. You will be welcome to enroll.

There are many items that the Board has acted upon, which I do not have space to mention, but they are reflected in the operations of the Association. We have given time and thought to this, **OUR BUSINESS**. Your suggestions are always welcome and we trust you will be interested enough to help when you can. You will find much to study over, in the pages that follow and I hope you will inform yourself. The benefits you have received are shown herein. But Cooperation means more than cash and stock dividends. It is working with others, sharing with others and being unselfish.

Your past loyalty is appreciated and I urge that you continue to be a good Cooperator.

Sincerely submitted,
(Signed)
B. J. Emanuel, President.

From Annual Report, April 24, 1940

COOPERATIVE YARDSTICK

You think of a yardstick as a unit of measurement. How do you measure your Cooperative or what do you think of it? Here is something to study about.

a. The price of ginning your cotton was 40 and 50 cents only a few years ago; now it is 25 or 30.

b. The profit on handling your cotton was $5.00 per bale or more; it is now 50 cents and $1.00 or at a loss sometimes.

c. The margin in cottonseed was $4.00 to $7.00 per ton; it is now $1.00 to $3.00. Also the price stays near the Dallas market, whereas formerly it was always under it.

d. The class of ginning and the service rendered has greatly improved: Coop Gins are the best customers for new, modern machinery.

e. Margins in Station supplies have been greatly reduced and quality improved since the Cooperative entered the business.

"More Dividends from larger volume flow,
Better Service from Cooperatives as they grow."